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By Barry E. Supple
VISITING LECTURER IN BUSINESS HISTORY AT HARVARD GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

A Business Elite: German-Jewish Financiers in Nineteenth-Century New York

Business history, if it is to comprehend the men and movements with which it deals, must of necessity invade other academic fields. This article is an attempt to trace the social and economic influences which fashioned the ultimate business activities of German-Jewish investment bankers in the late nineteenth century. Second only to the group of houses of Yankee origin, the group led by Kuhn, Loeb & Co. provides us with an outstanding example of a business elite in operation. Significant from the point of view of business history is the fact that in origins, early activities, and outlook, these family firms displayed remarkable similarities. Once established in New York they became even more tightly knit through marriage and social life. Only when all these factors have been taken into account can we claim to understand the unique role which these businesses played in the development of the American capital market.

Introduction

As scholarly interest in the historical development of the businessman grows, it becomes increasingly apparent that the interplay between social environment and business activity deserves close study. How an entrepreneur acts, the institutions and outlook which he uses and exemplifies, the pace and direction of his development, will all be conditioned by the social grouping with which he is identified.[1] In view of the complexity of the subject, any exacting study of social arrangements and pressures must necessarily be confined to one small field. In American history, given the role

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The author wishes to thank Miss Josepha M. Perry, who aided in the research — especially that which concerned family genealogies — and drew up the chart of family and firm interconnections.

[1] See, for example, John E. Sawyer, "The Entrepreneur and the Social Order" and Robert K. Lamb, "The Entrepreneur and the Community," both in William Miller (ed.), *Men In Business* (Cambridge, 1952).

of immigration, not the least important aspect is that of ethnic and kinship groups,[2] and this article confines itself to the business development of a small group of families, operating in a narrow sector of the economy, whose special characteristics delineated them sharply from their neighbors and associates.

Originally the intention was to deal only with those investment banking houses which flowered in the late 19th and early 20th centuries and whose leading personnel derived entirely from German-Jewish families. Outstanding in this respect were Kuhn, Loeb & Co., J. & W. Seligman & Co., James Speyer & Co., August Belmont & Co. Surrounding them were lesser but by no means insignificant luminaries: Hallgarten & Co., Goldman, Sachs & Co., Lehman Brothers, Heidelbach, Ickelheimer & Co., Ladenburg, Thalmann & Co. It soon appeared, however, that the distinct society which embraced most of these families extended beyond investment bankers. And account has had to be taken of private bankers and stockbrokers such as Asiel & Co., J. S. Bache & Co., Albert Loeb & Co. (which became L. F. Rothschild & Co. in 1910), Scholle Brothers, and Adolph Lewisohn & Sons; [3] of such nonfinanciers as the Straus family (of Macy's and Abraham & Straus), the Wertheims (who were in the cigar manufacturing business and only went into underwriting in 1927); and, in one instance, of a non-German family, the Guggenheims (who were from the German-speaking region of Switzerland).

Broadly, these families became economically established in America in one of two ways. A relatively small number came across with either the capital or the valuable expertise to fulfill their intention of carving a niche in the American financial scene. Examples here are: Philip Speyer, who immigrated from Frankfort (where he had

[2] See Oscar Handlin, *The Uprooted* (Boston, 1952), Introduction: "Once I thought to write a history of the immigrants in America. Then I discovered that the immigrants *were* American history." For the business activities of early kinship groups, see Bernard Bailyn, *New England Merchants in the Seventeenth Century* (Cambridge, 1955), pp. 87–91 and *passim*, and his "Kinship and Trade in Seventeenth-Century New England," *Explorations in Entrepreneurial History*, VI, 4 (May, 1954), pp. 197-206; also Kenneth W. Porter, *The Jacksons and the Lees, Two Generations of Massachusetts Merchants, 1765–1884* (Cambridge, 1937), I, 88–99, and *passim*. For the kinship group in New England trade to the Far East, see Benito Legarda, Jr., "American Entrepreneurs in the Nineteenth-Century Philippines," *Explorations in Entrepreneurial History*, IX, 3 (Feb., 1957), pp. 148–49.

[3] The Lewisohns are, of course, best known for their mining and copper activities. However, Lewisohn Bros. was an investment house, and Adolph Lewisohn and Sons were stockbrokers.

been trained in his family's bank) in 1837 to establish a foreign exchange and banking house – he was joined by his brother, Gustav, in 1845;[4] August Belmont, who entered the United States in 1837 as financial agent for the Rothschilds – although he was never identified with the group under consideration; Jacob H. Schiff, who, although only 18 years old when he first came to America in 1865, had had banking experience in Germany and (possessing a firm resolve to succeed in that field here) started a brokerage business within 18 months of his arrival;[5] and Adolph Ladenburg and Ernst Thalmann.[6] On the other hand, more important numerically, and more interesting from the present point of view, were those who immigrated with relatively limited resources or financial experience and who, consequently, were initially forced into peddling or retailing. Familiar names in this respect, which will be dealt with in more detail later, are Seligman, Guggenheim, Heidelbach, Straus, Goldman, Kuhn, Loeb, Lehman, Wertheim, etc. This latter group provides us with instances of a "rags-to-riches" story which can withstand even the cynical eye of historical research.

By the end of the century both "qualified" and "unqualified" families had coalesced into a homogeneous elite within but distinct from the larger society of New York City. All were wealthy, most were connected with the financial world; they went to the same clubs, attended the same synagogues, chose their friends and wives from within their own limited circle, were connected with the same philanthropic and communal activities, and displayed over their lifetime the same interest in German culture. For many, however, this haven of social and economic equilibrium centering on uptown New York and on Wall Street, had been reached only after many years in the wilderness. Indeed, the position of these families in the

[4] The Speyers were an old Frankfort banking family. Philip Speyer & Co. had close affiliations, in its later underwriting work, with other Speyer houses in London and Frankfort.

[5] Schiff returned home to Frankfort in 1872 when his first partnership was dissolved. He re-entered the U. S. in 1875 at the invitation of Kuhn, Loeb & Co. See Cyrus Adler, *Jacob H. Schiff, His Life and Letters* (Garden City, 1929), I, 5–9.

[6] Ladenburg was a venerable name in European finance. W. H. Ladenburg & Soehne of Mannheim dated from 1785. In the 1850's E. Ladenburg & Co. was founded in Frankfort and W. Ladenburg & Co. in London. See Paul H. Emden, *Money Powers of Europe* (New York, 1938), p. 397. Ernst Thalmann came to America in 1868 and went to work for a banker immediately. In 1873 (after a trip to Europe to study financial procedures) he returned to New York and established Limburger & Thalmann — which in 1880, with the entry of Adolph Ladenburg, became Ladenburg, Thalmann & Co., and grew to be very prominent in railroad finance.

New York financial world is only a part of the present article. Scarcely less important is the process by which they left Germany, settled in the United States, and prospered in the business world until their capital, knowledge, and expectations enabled them to enter the money market. In one sense, consequently, the story of their success is part of the economic history of nineteenth-century America: the activities in which they participated and the fluctuations in their fortunes were conditioned by the commercial potentialities of a particular expanding economy.

The following section is concerned with the background to the original migration and with the early business careers of the poorer group of immigrants. Part II will deal with the bases for their ultimate social grouping and Part III with the implications of all this for their business lives.

I. Mobility and Economic Activity

(a) *Immigration*

Most of the group, as shown in Table I, came to America between the late 1830's and the 1850's. This influx, however, was only a small part of a growth in Jewish migration which, in its turn, was a minute drop in the rising tide of European immigration. The years after 1835 had witnessed the first surge in the great series of nineteenth-century population movements. In the 1820's the highest level of total immigration to America came in 1828 when some 27,000 people entered the country. But in 1833 almost 60,000 immigrated and the last three years of the 1830's averaged 65,000. The annual average in the 1840's was 171,325 and in the 1850's it rose to 259,821.[7] After 1830 the German element was particularly strong, and in the 1850's the number of German-born residents actually increased, in relative and absolute terms, to a greater degree than that of any other national group.[8] But it is no longer accepted that the 1848 revolutions *per se* had a critical role to play

[7] All these figures are derived from *Reports of the Immigration Commission*, Vol. 3 (Washington, 1911), Tables 1 and 2.

[8] See Edith Abbott, *Historical Aspects of the Immigration Problem, Select Documents* (Chicago, 1926), p. 329:

	Resident in U. S.			
	1850	*1860*	*Proportion in 1850*	*Proportion in 1860*
Natives of Ireland	961,719	1,611,304	43.51	39.94
Natives of Germany	573,225	1,301,136	25.94	31.45
Natives of England	278,675	431,692	12.61	10.44

TABLE I

German-Jewish Immigrants

Name	*Date of Entry*	*Age at Entry*	*Marital Status*	*Place of Origin*
BACHE, Semon	1845	Under 20	Single	Bavaria
BELMONT, August	1837	21	Single	Prussia
GOLDMAN, Marcus	1848	27	Single	Bavaria
GUGGENHEIM, Meyer	1848	19	Single	Switzerland
HALLGARTEN, Lazarus	1849	?	Married	Hesse
HEIDELBACH, Philip	Pre–1850	Under 20	Single	Bavaria
ICKELHEIMER, Isaac	?	?	Single	Frankfort
KUHN, Abraham	1839	20	?	Bavaria
LEHMAN, Henry	1844	22	?	Bavaria
LEHMAN, Emanuel	1847	20	Single	Bavaria
LEHMAN, Mayer	Pre–1848	20 (?)	Single	Bavaria
LEWISOHN, Leonard	1865	22	Single	Hamburg
LOEB, Solomon	1849	19 or 20	Single	?
SACHS, Joseph	1848	?	Married	Bavaria
SCHIFF, Jacob	1865	18	Single	Frankfort
SCHOLLE, William	1841	19	?	Bavaria
SELIGMAN, Joseph	1837	17	Single	Bavaria
SELIGMAN: 7 brothers	1839–43	4–17	Single	Bavaria
SPEYER, Philip	1837	23	Single	Frankfort
STRAUS, Lazarus	1852	?	Married	Bavaria
THALMANN, Ernst	1868	17	Single	Rhenish Palatinate
WARBURG, Felix	1897	23	Single	Hamburg
WERTHEIM, Baruch	1850's	in 20's	Single	Kassel

in the heightened flow — the character of the immigrants and the timing of the migrations are not consistent with a purely political explanation.[9] When, in Marcus Lee Hansen's phrase, "the United States was discovered by the common man," it was to the blandishments of an economic rather than a political Utopia that the common man succumbed.[10] The influx from Germany, Ireland, and England was largely the result of the pressure of population on limited resources and of the painful adjustment of agricultural communities to growing industrial development.

It is impossible to isolate Jewish immigration in these years, but two points stand out: it did increase greatly, and the overwhelmingly

[9] Marcus Lee Hansen, *The Atlantic Migration, 1607–1860* (Cambridge, 1940), pp. 272–74. Also see Bertram W. Korn, "Jewish 48'ers in America," *American Jewish Archives*, II, No. 1 (June, 1949), 4.

[10] Hansen, *op. cit.*, Chapter VII.

preponderant nationality of the newly arrived Jews was German.[11] Consequently, there was a marked decline in Jewish communities in Germany – especially in Bavaria, Württemberg and the Palatinate.[12] While the statistics are not entirely trustworthy, it seems that in 1825 about 6,000 Jews resided in the United States; 15 years later the figure was probably 15,000; and by 1848 this number had perhaps doubled.[13]

Once again, and for much the same reasons, it is necessary to discount any theory as to the *direct* impact of 1848,[14] although the general economic effects of the political disruption, together with the subsequent intolerant reaction, undoubtedly further weakened the position and security of Jews in central Europe. In essence the Jewish population of Germany was caught in a squeeze between economic crisis and repressive legislation. On the one hand these people dwelt largely in rural areas and small towns,[15] and as grain-, cattle- or hop-dealers, as retailers, money-lenders, peddlers, storekeepers and artisans, they naturally suffered from the disruption of a peasant economy; the more so because their viability in the face of economic disaster was limited since Jews remained in their occupations and their countries only on sufferance. On the other hand the prom-

[11] In the 1820's Germany had about one-tenth of the world's Jewish population: Adolph Kober, "Jewish Communities in Germany from the Age of Enlightenment to their Destruction by the Nazis," *Jewish Social Studies*, Vol. 9 (1947), p. 198. For the preponderance of German Jews in the immigration see Rudolf Glanz, "The Immigration of German Jews up to 1880," *Yivo Annual of Jewish Social Science*, II–III, p. 81.

[12] Some contemporary estimates (presumably exaggerated) claimed that 10,000 Bavarian Jews had emigrated before 1839, and that 60,000 came to the U. S. before 1857. See, for all this, Mark Wischnitzer, *To Dwell in Safety* (Philadelphia, 1948), p. 6; Adolf Kober, "Some Friedmann Family Letters," *Publications of the American Jewish Historical Society*, Vol. 39 (1949–1950), p. 71.

[13] For such estimates see Adolf Kober, "Jewish Emigration from Württemberg to the United States of America (1848–1855)," *Publications of the American Jewish Historical Society*, Vol. 41 (1951–1952), p. 238; David Sulzberger, "Growth of Jewish Population in the United States," *Publications of the American Jewish Historical Society*, Vol. 6 (1897), p. 143; Glanz, *op. cit.*, p. 81; Oscar and Mary F. Handlin, "A Century of Jewish Immigration to the United States," *American Jewish Year Book*, Vol. 50 (1948–1949), p. 13; Wischnitzer, *op. cit.*, p. 21. An estimate by the Union of American Hebrew Congregations in 1880 gave the figure of 230,257: Sulzberger, *op. cit.*, pp. 144–45.

[14] It has been possible to trace only 28 Jewish 48'ers who emigrated to America. See Korn, *op. cit.*, p. 6.

[15] Kober, "Jewish Communities in Germany," *loc. cit.*, pp. 199–200. In Württemberg in 1846, of the total number of Jews (12,356), 10,030 (81.17%) resided in villages. In Bavaria in 1840 the five largest communities had only 7.5% of the Jewish population of the state.

ise of civil equality which accompanied Napoleon's conquests [16] disappeared in the reaction which followed.[17] In Bavaria and Württemberg the Jews were surrounded by a network of regulations and sequestered into small and scattered communities. Obliged to register with the government, with strictly limited possibilities of increasing numbers, hindered in their dealings in property, without freedom of occupational choice, and with marriages regulated and the number of official heads of family kept constant, the Jewish population, and especially the youth, was held as in a straitjacket.[18]

Along with occupational restriction there went a contemporary overcrowding of jobs. Along with poverty there went an inability to marry. After 1836 political reaction and economic depression provoked a mass migration of Jews, especially from the small towns of Bavaria and southwest Germany, where the youth could see no future.[19] Quantitative evidence is far from abundant; but one study (for Wurttemberg) [20] shows, as would be expected, that most of the Jewish immigrants were young, unmarried handicraftsmen, who had the will to leave and an absence of family responsibility and expense which facilitated their departure.[21] The group under consideration here falls readily into this framework of age, marital status, and place of origin. As shown in Table I, the immigration of the founders of the elite was typical of the greater movement then developing. But the road rarely led directly to New York, finance, and social respect. To the years of progress through the American economy we now turn.

(b) *Settlement in America: peddling, retailing, and wholesaling*

Although the German-Jewish immigrant of the mid-nineteenth century was rarely very wealthy, he usually had some small capital.

[16] Kober, *op. cit.*, p. 198; Eric E. Hirshler (ed.), *Jews from Germany in the United States* (New York, 1955), p. 34.

[17] Glanz, *op. cit.*, p. 85; Hansen, *op. cit.*, p. 139.

[18] Kober, "Some Friedmann Family Letters," *loc. cit.*, p. 170; Hansen, *op. cit.*, pp. 139–40; Kober, "Jewish Emigration from Württemberg," *loc. cit.*, p. 241; Hirshler, *op. cit.*, p. 35.

[19] Glanz, *op. cit.*, pp. 85, 88, 91.

[20] Kober, *op. cit.*, *passim.*

[21] *Ibid.*, p. 271; of the 206 emigrants whose age was recorded in the period 1848–1855, 109 were males between the ages of 11 and 20. Altogether, 186 men and women were under 31. Of the 171 who listed their occupations, 94 were handicraftsmen and only 8 were farmers. For the restlessness of the young and the proletarian nature of the movement, see Kober, "Some Friedmann Family Letters," *loc. cit.*, p. 74; Hirshler, *op. cit.*, p. 116; M. J. Kohler, "German-Jewish Migration to America," *Publications of the American Jewish Historical Society*, Vol. 9 (1901), pp. 94, 96; Glanz, *op. cit.*, p. 88.

The journey alone, in the years before steam revolutionized the cost of transport, demanded some money.[22] To live during the passage was in itself a drain on resources: Joseph Seligman (the first of eight brothers to come) set out from Baiersdorf, Bavaria, at the age of 17, with about $100 in July, 1837. Traveling with a small group and camping at the roadside, he took 18 days to reach Bremen. From there he sailed steerage at a cost of $40 (which included only one meal a day), and took 66 days to cross the Atlantic – landing on 24 September 1837 and proceeding immediately to Pennsylvania.[23]

Once in the United States, with his capital steadily dwindling, the immigrant who typically made a success of his economic activities usually had sufficient means or friends to find his way to one of many scattered regions throughout the land – unlike later generations of East European Jews, whose destitute immobility kept them concentrated in New York. In fact, the mid-century Jewish immigration as a whole produced a rapid growth of small communities from the East to the West Coast and from Chicago to New Orleans – although, naturally enough, there was a higher concentration in the East. By 1820 there was already a small community in Cincinnati and the 1820's and 1830's saw a further penetration of the Midwest, while a few immigrants reached Louisville, Kentucky. In 1826 a congregation had been founded in New Orleans and in the 1840's Texas and in the 1850's California were reached by Jewish settlers.[24] The 37 reported synagogues of 1850 increased to 67 in 1860 – and they were found for the first time in California, Alabama, Georgia, Illinois, Indiana, Maryland, New Jersey, Wisconsin, and the District of Columbia.[25]

One reason for this distribution was that the contemporary Jewish immigrant often followed the frontier of peddling and petty retailing. The original occupation structure of the German Jew had led him, unlike the peasant, to appreciate the significance of in-

[22] The average migrant from mid-century Württemberg had between 150 and 400 florins. Kober, "Emigration from Württemberg," *loc. cit.*, p. 245.

[23] Linton Wells, "The House of Seligman" (3 vols.; MSS in the New-York Historical Society, 1931), I, 10–13.

[24] Kober, *op. cit.*, p. 228.

[25] Some measure of distribution is provided by the official statistics of synagogues derived from the U. S. Census of Religious Bodies. See Uriah Zvi Engelman, "Jewish Statistics in the U. S. Census of Religious Bodies (1850–1936)," *Jewish Social Studies*, Vol. 9 (1947), pp. 129–32. Of course, these figures underestimate Jewish *settlement*, since it might be some years after the first Jew arrived (and allowing time for the settlement of a sufficient number of families) before a congregation was actually founded.

come as capital — as the potential source of further income; he, "even in the old country, had learned to reckon, to direct earnings towards a purpose." [26] This grasp of a central proposition of entrepreneurship meant that he was less likely than the erstwhile peasant to feel economically rootless in the new environment. Once in America, then, he cast around energetically for a means of livelihood and capital accumulation. Peddling (if the immigrant had little capital) and settled retailing or wholesaling (which would, in any case, follow upon peddling as quickly as possible) naturally attracted a great number — and it seems possible that by 1860 a majority of the peddlers in the United States were Jewish.[27]

An itinerant life was something which, historically, was not too strange a mode of existence for the Jews. Initial difficulties with the language might militate against many other occupations. Historical social pressures and attitudes made Jews reluctant to enter unskilled manual occupations or go onto the land. Where the desire to keep their Sabbath free for worship was so strong, independence was a goal well worth striving for.[28] And where family life and solidarity played such an important social role, any occupation in which the family as a whole might participate was the more welcome. In addition, since Jews were accustomed to being a persecuted minority group they had no compulsion to look outside their own community for social approval. The criteria against which actions were significantly measured lay within the circle of coreligionists; social snobbery from outside was the norm — and was therefore not a meaningful variant which conditioned their lives. If peddling was a menial task in the eyes of the majority, it was not so to the poor Jewish immigrant — in fact it might be a convenient means of escaping from the *real* degradation of working for others.[29]

As everywhere in the West "the rapid march of settlement outdistanced the ability of the towns to supply the rural districts with

[26] See Handlin, *The Uprooted*, pp. 19–20, 92.

[27] Rudolf Glanz, "Notes on Early Jewish Peddling," *Jewish Social Studies*, Vol. 7 (April, 1945), p. 120.

[28] Instructive here is the case of Meyer Guggenheim who, although ultimately far from orthodox in his religious observances, peddled throughout the Pennsylvania anthracite coal regions in his early years, but returned every Friday night to his home in Philadelphia. See Harvey O'Connor, *The Guggenheims: The Making of an American Dynasty* (New York, 1937), pp. 21–22.

[29] See Louis Borgenicht, *The Happiest Man* (New York, 1942), pp. 193, 198–210.

needed goods,"[30] as the development of markets outpaced the rise of sophisticated and institutionalized retail distribution, so Jews were attracted into the field, selling notions, trinkets, dry goods and old clothes, opening stores if they could, buying a pack (or even a wagon) if they could not. Most of the group under discussion here participated in this development, and as a consequence became well distributed geographically—although each peddler needed a base for his operations and each storekeeper wished to tap the richest market. Hence the rise of Jewish communities in strategic regional urban centers, usually near water routes. Especially remarkable in this sense were the Ohio Valley region (centering on Cincinnati), the Chicago area, the Pennsylvania mining towns and Philadelphia, the West Coast, and some southern areas.

The father of the founders of J. S. Bache & Co., Semon Bache, worked in a Mississippi store (owned by his uncle) after his landing in New Orleans. Marcus Goldman, who ultimately started Goldman, Sachs & Co., proceeded to Philadelphia in 1848 and there peddled for two years before opening a men's clothing store which prospered greatly until his temporary retirement in 1867. Meyer Guggenheim, after his landing in New York in 1848, also peddled in Pennsylvania (in the mining areas), selling shoestrings, lace, stove and furniture polish, safety pins, needles, spices, etc.; he then turned to the sale of home-manufactured stove polish, traveling with samples by train and horsecar; and about 1852 opened, in Philadelphia, a wholesale store for household products, ultimately importing goods from Europe. Philip Heidelbach peddled in Ohio and then went into the clothing trade (probably as a manufacturer) in Cincinnati; from a venture in local banking he ultimately graduated, in 1876, to a banking house in New York. Abraham Kuhn and Solomon Loeb, the founders of Kuhn, Loeb & Co., commenced with a commercial partnership in Lafayette, Indiana, about 1850, before moving to Cincinnati with a general merchandising store, which lasted until their temporary retirement in 1865. Henry Lehman immigrated in 1844, peddled in Alabama for a year and then opened a general store in Montgomery; he was joined by his brothers Emanuel and Mayer Lehman within five or six years and the firm expanded through the years into cotton brokerage with a New York branch; after the war the firm extended its commodity dealings to include coffee and petroleum, being joined by the sec-

[30] Oscar Handlin, *Adventure in Freedom: Three Hundred Years of Jewish Life in America* (New York, 1954), p. 52.

ond generation in the 1880's. Samuel Rosenwald, father of the future president of Sears, Roebuck, peddled in the South, on foot and then with the help of a horse and wagon, until the outbreak of the Civil War, when he moved North to Springfield, Illinois, and established what was to be one of the town's leading stores. Lazarus Straus landed in Philadelphia in 1852 and went to Oglethorpe, Georgia; after peddling for some months he settled in a general store in Talbotton. His family joined him in 1854 and in 1863 he he moved to Columbus – returning North after the war to establish a wholesale crockery business. William Scholle, who arrived with little means in 1841, eventually came to deal on a large scale in clothing and woolens, opened a branch in San Francisco, and in 1850 moved there himself; at which point the firm developed a banking business – presumably under the influence of the gold discoveries. California after the gold discoveries also attracted the Seligman brothers and they, in fact, provide us with an archetype of geographical dispersion.

Joseph Seligman, the eldest of the eight, immigrated in 1837 and worked for a year as an assistant in Asa Packer's store in Mauch Chunk, Pennsylvania. Then he resigned and occupied himself with peddling in the locality. By spring 1839 he had amassed $500 and was joined by his brothers William and James, who also became peddlers. Next, Joseph and William opened a small store in Lancaster and James went South as an itinerant merchant, centering his peddling in Alabama. His success stimulated the others (together with Jesse who had, meanwhile, left Bavaria for America) to accompany him back and in 1841 the four brothers opened a store in Selma, Alabama – which, with one brother left in charge, they used as a base for peddling. By 1843 they had extended their activities to include four stores – in Selma, Greensboro, Eutaw and Clinton – each managed by one brother who left his store in charge of an employee in order to peddle. After 1846, feeling restricted in Alabama, they opened a drygoods importing house in New York. Soon William went to St. Louis to establish a clothing business with his brother-in-law Max Stettheimer, and Jesse and Henry (who had come over in 1843) opened a branch of the New York house in Watertown, New York. In 1850 Jesse and Leopold were bitten by the gold bug – or at least by the prospect of commercial profit in California – and in the fall they moved to San Francisco with $20,000 worth of merchandise. The 50's were to see some movement of Seligman personnel between branches, but up to the Civil

War the framework remained essentially unchanged: the Seligmans had succeeded in establishing a network which placed them – even if fortuitously – in a pre-eminent position so far as the realities of distribution were concerned.

Parenthetically, this pattern of development applied equally to some German Jews who were not members of our group: Isaac Friedlander, who became "grain king" of the Pacific Coast; or Nelson Morris, who rivaled Armour and Swift in Chicago livestock; or the Friedmann family, with the largest contemporary wholesale shoe firm in Boston, Memphis and St. Louis; or Joseph and Max Weil, who came from Bavaria a year before Joseph Seligman, peddled in Pennsylvania, opened a general store in Kentucky and ultimately came to own J. Weil Brothers in Chicago – a wholesale dry goods and clothing store with a $3 million turnover in 1860.[31]

Thus, by the late 1850's the initial phase of economic integration was largely completed. Twenty years had witnessed the arrival of a generation of German Jews with little capital. Among them were men who, seeing their opportunity in the field of distribution, launched forth inland yet more hundreds of miles. Some stayed out in the West and the South and their children established permanent communities, but another cluster also emerged: men who, back in New York with capital and commercial experience, would ultimately participate to no small extent in the critical development of the American capital market in the decades after the Civil War.

(c) *Settlement in New York: the move into finance*

To repeat, within a relatively few years of their arrival in the United States, most of our men were firmly established in one aspect or another of the distribution system – retail or wholesale or overseas trade.

For most of them the Civil War brought prosperity – at least to some degree. Even where, as in the case of Straus and the Lehman brothers, operating within the southern economy, they had to bear the brunt of commercial dislocation and general insecurity, there might be some counterbalancing benefits. Thus, Lazarus Straus' son Isidor was in Europe for the last two years of the war with a commission to buy supplies for the Confederacy and, it appears, made a profit of several thousand dollars on the sale of Confederate

[31] See Kober, "Some Friedmann Family Letters," *loc. cit.*, pp. 175–76; Isaac Markens, *The Hebrews in America* (New York, 1888), pp. 146–47, 166.

bonds. But for most, the period was one of relatively uncomplicated prosperity. A boom in textiles helped those whose business was in clothing. and the general war inflation naturally aided those whose principal economic activity lay in buying and selling. The Seligmans, as always, could not go wrong. In the early years of the war, partly owing to their influence in government circles and their prominence in the Republican Party, they obtained lucrative clothing contracts; and from 1 August 1861 to 30 July 1862, the government paid them, on this account, almost $1½ million. Later on in the war they were large-scale participants in the flotation of federal loans – principally in Europe. As early as April, 1862, the brothers had a capital of just under $1 million; by March, 1864, this had been augmented by over $250,000.

In general, then, the postwar position of these men was buoyant – and in two instances (Kuhn and Loeb in 1865 and Marcus Goldman in 1867) there was even a retirement from economic activity. But when Kuhn and Loeb, in 1867, and Goldman, in 1869, re-entered business, it was in a way which typified the general movement: to New York and into finance. For most of the group who immigrated before the war with little money and no financial experience, the postwar decade was seminal. Private banking, commercial paper discounting, exchange transactions, stock dealings, all exerted a strong pull on men with agile minds and the requisite capital. Kuhn and Loeb, it has been estimated, had a capital of half a million dollars and some experience in extending credits, and we have seen how wealthy the Seligmans were – while their financial experience was extensive. It seems that Marcus Goldman's wife played a not unimportant role in persuading him to make the move.[32] But his entry into the commercial paper field was made possible only by the attraction of New York as a financial center and by the capital which he had accumulated in Philadelphia. The Seligmans, of course, had long had their base in the metropolis, but as conditions changed it is possible to witness the long and purposeful thought which went into their decision to leave the importing of dry goods and to enter wholeheartedly into international investment banking.[33]

It was at this stage of their development that the path of the originally unqualified men crossed that of the group who immigrated

[32] I am indebted to Mr. Walter E. Sachs for the information that Mrs. Marcus Goldman, eager for the company of her New York friends, helped persuade her husband to leave Philadelphia.

[33] See the letters of Joseph Seligman, New-York Historical Society, 30 December 1803, 14 January 1864, 10 March 1864; also Wells, *op. cit.*, I, 68 ff.

qualified, either with capital or experience, for the banking field. They, too, were consciously gravitating to a young and flourishing field, and they provide even more obvious examples of the mobility of factors of production. The two Speyer brothers (Philip and Gustav) had come in 1837 and 1845 respectively and established Philip Speyer & Co. They, like the Seligmans, sold federal bonds in Europe during the Civil War. In 1878 the firm name was changed to Speyer & Co., and it was by no means an insignificant factor in the American underwriting world. Ladenburg, Thalmann was established in 1880 – as the successor of Limburger & Thalmann (1873) – Ernst Thalmann having been in banking since his immigration in 1868. Jacob Schiff had entered in 1865, already had a brokerage partnership in 1866, went back to Frankfort in 1872, and in 1875 returned, for good, to join Kuhn, Loeb & Co.

Once established in New York, both types of firm – all houses stemming from German-Jewish families – experienced a development parallel to that of the New York money and capital markets. Leopold Cahn & Co. (1879), which Semon Bache's son Jules S. joined in 1880, became J. S. Bache & Co. in 1892 and developed into a prosperous stockbroking business which is still on Wall Street, operated by Jules' nephew Harold L. Bache. Goldman, Sachs and Co. (originally, in 1869, M. Goldman, Banker & Broker) dealt for many years in note-discounting, branched out into the handling of letters of credit and bills of exchange, started to buy railroad bonds, and under the leadership of Marcus' son Henry Goldman, and with the help of Samuel Sachs and his three sons, went into investment banking in the first decade of this century. In the latter venture Lehman Brothers joined Goldman, Sachs. The Lehmans had started with commodity transactions, and in the 1880's had commenced stock and bond dealings, railroad investment and industrial banking – by which time the second generation was in control. Kuhn, Loeb's private banking house (established 1867), especially under the invigorating leadership of Jacob Schiff, gradually gave more attention to securities and helped establish a market for American government obligations and railroad bonds – until at the end of the century it was numbered among the six leading investment banking houses in the land. Hallgarten, Speyer, and Ladenburg, Thalmann were also outstanding in the financing of railroads, utilities, and industry.

Why this particular group should have been as successful as it was in this particular field is not a question which permits of a

satisfying answer. Clearly they were not concerned in a conspiracy to monopolize the money market. To some extent, as will be seen, the common background facilitated their dealings with each other and with some clients; but this was not a continuous process, and it could not explain their success in financial transactions involving non-Jews. Neither can it be proved that personal experience in European finance counted for something in every case: the backgrounds of most of these men, before they went into finance, were not such as to provide them with a mastery of European techniques. However, it is more interesting that, besides the few who came to America with abilities based on years of family banking, many of the group were fully alive to the lessons to be learned from European experience. Schiff was undoubtedly aided by his early work in Frankfort banking and by his stay in Europe in 1872–1875, while Kuhn, Loeb in later years *continued* to call on European talent in the shape of Otto Kahn and the Warburgs. More than this, there were frequent visits to Europe for further education in finance even when the American firm was well established: Ernst Thalmann, Goldman, Sachs personnel, the Seligmans, all learned valuable lessons there. Of course, as J. P. Morgan's early history demonstrates, this interplay of ideas was by no means confined to German-Jewish houses. But, with their strong orientation to German culture and their continuous attachment to Europe, there can be no doubt that this particular group was in an especially favorable position to benefit from the advanced practices across the Atlantic. As will be seen in the final section, this cosmopolitan frame of mind enabled them to profit from the contemporary need to import capital from Europe, by establishing trans-Atlantic connections. In general, this particular result of their cultural background is not something to be underestimated, and therefore the fact of their having been *German* Jews was clearly significant.

To some extent, of course, the "open mind" had been important from the early days of their settlement in America. An ability to grasp the concept of productive capital which exceeded that of their fellow immigrants, a willingness to risk even more of the unknown in order to achieve economic and social independence, an historical aversion to unskilled manual labor or agricultural pursuits: all these factors go towards explaining their ultimate position in the interstices of trade organization. As America after 1865 came to provide for men of capital in the field of finance the opportunity and promise for which a host of other immigrants had looked, and were to

look, in vain, these families easily made the transition into the new world, confident that it would fulfill its promises. The road which had led from the dusty lane to Main Street now pointed towards Wall Street and even more security. Scattered over much of America, these families could not but have felt socially isolated. Back in New York they set about building their own in-group. To the bases of this structure the next section is devoted.

II. The Bases of an Elite

Once in New York, the families who had originally arrived poor coalesced with those who had arrived with capital to form an elite differentiated in background, in culture, in religious observance, in social outlook and activities, from other groups around it. That Henry R. Ickelheimer, Jules S. Bache, three Seligman brothers, and James Speyer were all present at the marriage of Jacob Schiff's son, Mortimer, was more than evidence of business good manners: it demonstrated a strong social solidarity. That Mortimer, in fact, married the daughter of a Hallgarten partner, or that Henry R. Ickelheimer, four years later, married Pauline Lehman, were more than coincidences: for these young people went to the same clubs, worshipped at the same Temple, and continually gathered at each other's houses. The elements which, at bottom, drew them all together were principally three: their business interests, their German background, their Judaism. We have already looked at the first of these. We now turn to the last two categories.

(a) *The German Background*

The prop which upheld the many thousands of German gentiles whose immigration had been, in Oscar Handlin's phrase, an "uprooting," was that of a steady attachment to the German language, German culture, and German nationalism – and a lively participation in the host of German societies which sprang up in nineteenth-century America. In the case of their Jewish compatriots this outlook satisfied the same needs and gave the same psychic support. Unlike their coreligionists from eastern Europe after 1870, the German Jews found in the evocation of the values and tongue of their mother country a worthwhile pursuit and a matter for fierce pride. Therefore, at least initially, there was no attempt to form specifically Jewish social organizations. In their first years in the land Jews turned naturally to German groups, to the German theater, to balls and concerts, to "Pioneer Associations," educational societies, sports

clubs and especially to the German immigrant aid societies. Having arrived in a country where they did not belong, facing a culture which was new and strange, they drew what strength and security they could from participation in activities for which their previous existence was the only requisite passport. There they could speak the familiar language, enjoy the same popular culture, and sink whatever loneliness they felt in the mutual protection of their fellows in a similar situation.

An important element in group identification was the continued use of the German language. One estimate of the 1850's was that two-thirds of the German Jews in America were unable to speak English. Even among those who could speak English, there was a strong attachment to German — in which even the second and third generations might be proficient: this was the case with Jacob Wertheim's children (third generation) who had a German governess. Joseph Seligman's early letters to his wife were in his native tongue; Jacob Schiff, who was always preaching the doctrine of Americanization, invariably wrote in German to Sir Ernest Cassel; and the children of prominent families were often given intensive out-of-school instruction in Hebrew and German. Convinced that German culture and the German school system were the best in the world, the first generation of Jews joined the general battle for the official recognition of the language and the establishment of "German" public schools. It was only natural, too, that while religious worship was oriented to the German *minhag*, or ritual, the minute books of the congregation should be written in the mother-tongue. Indeed, it was only in the 1860's and 1870's that there was a significant clash of the two languages — with inevitable victory going to English.

Germany itself still provided a strong attraction. Cultural roots and a sentimental magnetism were there; members of the family still lived there; and there they might find an ideal spot to which to retire — as did Charles Hallgarten, Abraham Kuhn, and James Loeb. Although America usually received their first allegiance, trips to Germany, whether for business or pleasure or (more often) both, were still frequent. Schiff often took vacations there; Joseph Seligman and his brothers (even before the establishment of their Frankfort branch) went on perennial visits — which might be to secure business, as was Joseph's trip of 1862–1864, or might merely be to see once again a land which still had strong associations for them. Marcus Goldman and his family went to Germany during his brief re-

tirement, and Kuhn and Loeb returned before establishing their New York house in 1867.

But Germany was not only a pleasant land to visit — it was also, for some of our men, a source of wives and an educational system. Nathan Straus, when over there on business, married Lina Guthers in Mannheim, in 1879; Jesse Seligman met Henrietta Hellman in Munich, and married her in San Francisco (in 1854); Joseph Seligman, himself, went to Munich and married his first cousin, Babet Steinhardt, in 1848. In fact some German Jews seem to have gone back to Germany with the sole intention of dabbling in the marriage market. Joseph Seligman, in his letters of 1863,[34] describes Wolf Goodheart, who had come to Germany and been urged by Joseph to marry a certain young lady. But, Joseph writes, "he says he has a head of his own, he will not marry except he 'gets a lady' of the first water, handsome, highly educated, sprightly, in fact he wants something quite *recherche, a ne plus ultra* — I think he will on his way back drop in at St. James's Palace and look around there. His brother Sander in Lichtenfels who is more of a matter of fact man tells him he is a d–d fool if he does not try to get money (has one in view already with *Sechs Tausend Gulden*) . . . ." But often there was no need or perhaps possibility of going to Germany and many German Jews who immigrated single (e.g., Marcus Goldman, Baruch Wertheim or Mayer Lehman) chose their wives from German-Jewish stock already in America.

Since German education was thought of so highly, families, if they could afford it, often utilized it. Thus, Joseph Seligman was reluctant to return from Germany too quickly from his visit in the early 1860's for fear his children might lose the educational benefits they were then enjoying.[35] James's son, Jefferson Seligman, graduated from Columbia (1878) and then studied medicine in Germany, although he later joined the New York firm; Jules and Leopold Bache both went to school in Frankfort and Brussels; Albert Scholle obtained a Ph.D. from Freiburg in 1903; Morris Loeb, who was a chemist, was educated at Harvard, Berlin, Heidelberg and Leipzig; Joseph Seligman's daughter, Frances, studied in Germany — as did Jesse's son Albert.

In all these ways the emotional ties to Germany were maintained and strengthened. And at home they were exemplified by munificent gifts — such as Schiff's proposed $100,000 to Cornell in 1912 to

[34] Letters of Joseph Seligman, *loc. cit.*, 25 June 1863.
[35] *Ibid.*, 23 November 1863, 4 February 1864.

promote the study of German culture, or his help to Harvard's Germanic Museum, or Adolph Lewisohn's donation of a library of German books to the City College of New York. For those of the older generation who were still alive and retained their affection for the Fatherland the First World War came as a severe shock. Schiff, who had relatives in England as well as Germany, did, indeed, display an ambivalent attitude before 1917 – at first hoping that Germany would not be defeated, while not wishing to witness German hegemony. But with America's participation and the intensification of the war, he came to see the German war-machine as ruthless and inhumane, and gave unstintingly of his efforts in war service. In June, 1918, he wrote: "Though I left Germany as a very young man and adopted this as my country 53 years ago, I believe I understand Prussian aspirations and Hohenzollern methods sufficiently to confirm my belief in the most forcible necessity for winning this war completely." [36] Henry Goldman, on the other hand, was consistently pro-German, in contrast to all his partners, and prevented Goldman, Sachs from participating as a corporation in the $150 million Anglo-French loan of 1915. In 1917 he was forced to resign from the firm.

But on the whole, when war came, these families did not allow whatever love they still had for Germany to exceed their loyalty to the land of their adoption. Twenty or thirty years before, however, there had been no dichotomy, no clash; the German affiliation had been a central unchallenged feature in their lives and a powerful force holding the group together.

(b) *Judaism*

A second ingredient of group solidarity lay in the approach to religion. As this cluster of families was the social and financial leader of its generation, so it provided a secular advance guard in matters of religion. From the start religion presented structural difficulties and problems never encountered in the old country. In Germany, Jewish religious and communal organization had looked inwards: in the midst of an intolerant society, Jews had had a psychological as well as an intrinsically theological reason for buttressing the orthodoxy of their religious practices. Enforced residence in the community facilitated the erection of distinctive barriers in their own self-defense, and the Jewish entrepreneur in Germany, aware of the pain of attempted assimilation, thereby felt no real constraint upon his social or economic aspirations.

[36] Adler, *op. cit.*, II, 181 ff., 205.

However, from the commencement of their journey Jewish immigrants to the New World were confronted with weighty problems. Often they were forced, with much pain, to contravene the dietary laws; sometimes, by traveling in groups with their own supplies, they avoided this. But once in America, there was a twofold dilemma. On the one hand, in an open society, where Jews were no longer a harassed minority and where the community promised a relatively unhindered advance to business talent, some of the bolsters to religious particularism seemed obsolescent barriers to the realization of the concept of progress derived from the American scene. On the other hand, those immigrants who were, at least initially, poor and scattered through the land in minute communities or alone, might find it impossible to comply with all the tenets of their strict religion. Hence, where on a mundane level the Strauses, although respected in their small Georgia town as representatives of the Biblical people, were forced to eat pork, so on the doctrinal level American Jewry of the mid-nineteenth century (largely of German origin) evolved the concept of reform. From the Strauses' annual hog-killing to the role of Temple Emanu-El in the 1890's was but a small step. Religious requirements were eased to conform to the reformers' view of the demands of American society: to satisfy their ideas of a modern religion without outraging their conscience.[37]

Nevertheless, the centripetal forces of inherited traditional observance were still strong and there were still requirements whose demands were too powerful even for the solvent of the expanding American economy. In fundamental rituals, in death and sickness, in old age and destitution, a need was still felt for the ministrations of religion and the organization of specifically Jewish institutions. Our group participated fully in communal and philanthropic activities. Whatever the compromises with modernity, the families remained markedly Jewish, even to the point of extending financial help to the ultra-orthodox Jewish Theological Seminary. In the new reform equilibrium which centered on Temple Emanu-El of which the Lehmans, the Seligmans, the Wertheims, the Guggenheims, the Goldmans and the Sachses were all members, there was still scope for

[37] The trend to Americanization also provoked attempts at reform in Catholicism, but in the Jewish instance such splitting was greatly facilitated by the lack of any real hierarchy and of any effective discipline outside the individual congregation. See Handlin, *The Uprooted*, pp. 133–34, 140–41. The processes of the reform movement are described in greater detail in Handlin, *Adventures in Freedom*, pp. 73 ff.

the Seligmans to consider High Festivals, although not the Sabbath, with devout attention, or for Schiff to observe the Sabbath with all the orthodoxy due from a strict Jew. For all of them, the elite to which they belonged and to which they were so closely attached by marriage and inclination was essentially a Jewish elite.

(c) *Solidarity and Kinship Groups*

In some respects, the group adopted habits common to families of equivalent income.[38] But much of its social life was basically insular, oriented around each other's homes or such clubs as the Harmonie. Founded in 1852, the *Harmonie Gesellschaft* was patronized almost exclusively by German Jews: not until 1893 did German cease to be its official language.[39] Interesting in this respect, and as reflecting the economic interests of club members, is the following quotation from one of Henry Seligman's letters, after Pacific Mail stock had tumbled 15 points in March, 1885: "The Jews in particular have been badly nipped. . . . They are down on Ed Lauterbach who is on the board and at the Harmonie the members are going about singing *On Lauterbach hab ich mein gelt verloren.*"[40]

The social solidarity of the German-Jewish banking community was in no way better exemplified, and furthered, than by the tendency — common to all unified elites — to intermarriage. Chart I represents the genealogies and marital ties of the families under consideration. As can be seen, one result was that the business *was* the family — in its economic aspect. To some extent the added strength which partnerships derived from marriage vows antedated the final rise to social and business success: thus, Solomon Loeb's first wife was Abraham Kuhn's sister Fannie, and the marriage took place well before the move to New York and the establishment, by the brothers-in-law, of the famous investment banking house. On other occasions a new partner's entry into the established firm would follow on or be coincident with his marriage to an older partner's

[38] For instance, in taking advantage of available institutions of higher education for the second generation. Harvard and Columbia received particularly strong contingents. Even so, many of the group sent their children to the school founded by Julius Sachs, and well-known as "Dr. Sachs' School." Joseph Seligman, in a heroic gesture, employed Horatio Alger as tutor to his children.

[39] In 1894 its name was changed to the Harmonie Club. See the *New York Times*, 24 November 1912, p. 4. The Lotos Club, founded in 1870, was also very popular. See *Club Men of New York* (New York, 1893), p. 26.

[40] Letters of Henry Seligman (Graduate School of Business Administration, Harvard University), 27 March 1885.

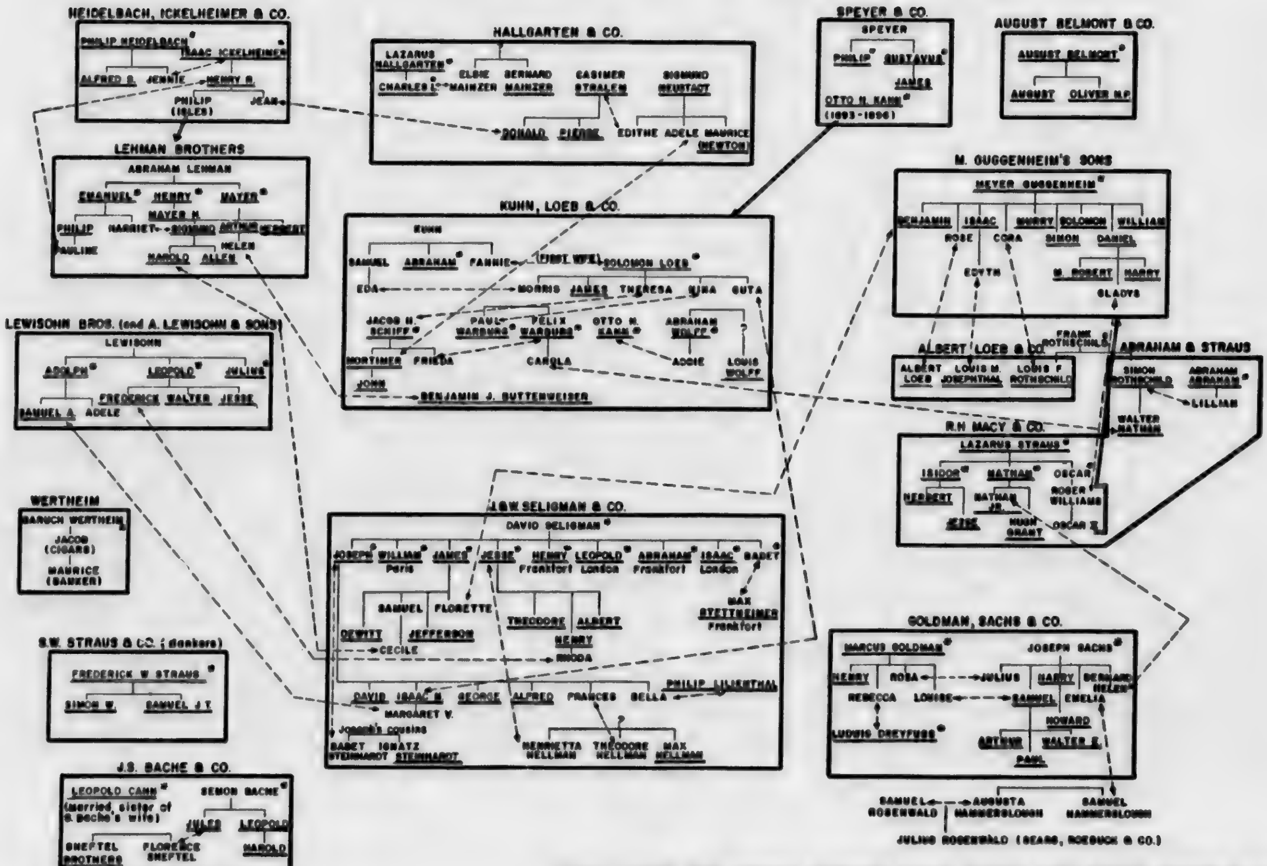
daughter, as in the case of Jacob Schiff's partnership in Kuhn, Loeb. Indeed, this firm was so interwoven by marriage relationships that from 1869 through 1911 it had no partners who were not related to Solomon Loeb or Abraham Wolff, and as late as 1931 this rule held good of three new partners: John M. Schiff (grandson of Jacob and therefore great-grandson of Solomon Loeb), Frederick M. Warburg (son of Felix and therefore, again, grandson of Solomon Loeb), and Gilbert W. Kahn (grandson of Abraham Wolff). In Goldman, Sachs & Co. it was not until 1915 that a person outside the two families was brought into the firm and the family histories show an early intertwining – two Sachs boys (who had been orphans under the care of their future father-in-law) marrying two of Goldman's daughters. Similar intrafirm unifications occurred in the Seligman enterprises and Heidelbach, Ickelheimer & Co., which was founded in 1876 after the marriage of Isaac Ickelheimer to Philip Heidelbach's daughter. Four of Hallgarten's partners, Bernard Mainzer (1864), Charles Hallgarten (1872), Sigmund Neustadt (1872), and Casimer Stralem, were also tightly knit: Mainzer's sister married Charles Hallgarten, and Neustadt's daughter married Stralem. Sometimes a business did not even need marriages to secure family continuity in partnership: until 1924 all the 11 partners in Lehman Brothers bore the family surname!

The broken lines on Chart I also demonstrate that the marriage ties which connected both families *and* banking houses were of no less importance. In the resulting interlocking structure, the fecund Seligmans occupied an "anchoring" position, having connections with the Lewisohns, the Lehmans, Kuhn, Loeb, and the Guggenheims – the marriage of Benjamin Guggenheim and Florette Seligman in 1894 uniting the two most important families in American Jewry. Jacob Schiff, so closely tied by marriage to his own firm and the brother-in-law of Guta Loeb, who married into the Seligmans, was also the father-in-law of a Hallgarten partner, who was the son-in-law of another partner, who, in his turn, was the father-in-law of an Ickelheimer!

Clearly, the marriages were not entirely consciously arranged with an eye to business solidarity. The formation of the group was the initial step: with the consequent participation in an insular social world – with a constant meeting in the same homes, the same clubs, and the same restaurants – it was inevitable that the younger generations should choose their spouses as they did. These ties, in any case, were only the framework upon which was built a tower-

CHART I

FAMILY BUSINESSES OF GERMAN-JEWISH ORIGIN



NOTES: BROKEN LINES INDICATE MARRIAGES. DOUBLE UNBROKEN LINES INDICATE MEMBERS OF A FIRM. ASTERISKS INDICATE ACTUAL IMMIGRANTS, IF KNOWN. NOT ALL MEMBERS OF FAMILIES ARE SHOWN.

ing structure of mutual friendships. Descendants of the families today, who were then conscious of such things, can remember from their childhood a period when most of these people were intimate acquaintances — when Jacob Wertheim, for instance, was a close friend of Daniel Guggenheim, the Hallgartens, Julius Rosenwald, the Seligmans, the Ickelheimers, the Loebs, Jacob Schiff, the Strauses, the Lehmans, Felix Warburg, and Henry Goldman.[41] The firmness of the group's social position cannot be doubted. Springing from religion, nationality, occupation, and wealth, it was strengthened by education, culture, club membership, and religious observance. It was, perhaps, almost as much a matter of defense as of spontaneity. This cluster of families had a background and cultural acquisitions pushing them toward the conventional social graces; but they carried an ethnic stigma which, at least in the first generations, prevented their moving into the graceful echelons of New York society for which they no doubt considered themselves fitted. For only a small minority was assimilation an acceptable solution to the problem.[42] In rare instances an individual might participate in two communities.[43] But for the great majority the answer was a society within a society, an elite perhaps equal but certainly separate, forced into being by prejudice and buttressed by participation in a specialized culture.

Nevertheless, it would be wrong to claim that the German-Jewish group had been completely divorced from some aspects of American society. Most of their friendships and much of their social activity *was* insular. But the Seligmans knew Lincoln and loved him well, they helped arrange a pension for his widow, and they were extremely close to President Grant; Oscar S. Straus is best known as someone who made his mark in government circles — as Ambassador to Turkey and the first Jewish member of the Cabinet; Jacob Schiff was ultimately considered the equal of the Yankee financial aristocracy, and was very close to Edward H. Harriman, and Nathan Straus was on the best of terms with President Cleveland. Equally, too, and as a corollary of their devotion to Reform Judaism,

[41] I am indebted for this information to Mrs. Angelika Frink, who was able to recall these friendships of her father, Jacob Wertheim.

[42] August Belmont, connected as he was with the aristocracy of European finance, married to Commodore Perry's daughter, and a complete apostate from Judaism, never touched the fringes of this social group.

[43] For Otto Kahn of Kuhn, Loeb & Co., a sincere passion for music and drama (leading to the Chairmanship and reorganization of the Metropolitan Opera Company), an English background, and a European training, seem to have proved acceptable social passports.

these men fought hard against any tendency to "separatism" in American Jewry. Schiff's opinion was that "we are all Americans," [44] and Oscar Straus, although he felt his ethnic background very keenly, was no less devoted to America: Jews, he said, "are not less patriotic Americans because they are Jews, nor any less loyal Jews because they are primarily patriotic Americans." [45] For this reason too, because they saw the clash with Americanism, most of these men were opposed to the Zionist movement, which they viewed as dangerous in so far as it established a prior lien on citizenship.[46]

In spite of these early trends to Americanization and in spite of the ultimate crumblings of social demarcations,[47] it is possible to see at the end of the nineteenth century a social elite based primarily on ethnic factors: strong and united, a series of interlocking kinship groups revolving around the New York financial scene. Yet the important question for business history remains unanswered. How did the foregoing arrangements and attitudes impinge on busi-

[44] Adler, *op. cit.*, II, 68–69.

[45] Lee M. Friedman, *Pilgrims in a New Land* (Philadelphia, 1948), p. 102.

[46] This feeling did not prevent men like Schiff and Rosenwald from extending philanthropic aid to Jews in Palestine, although Rosenwald spent as much as $5,000,000 on the Jewish colonization movement in Russia.

[47] As described in this article the structure and unity of the German-Jewish community were relatively unchallenged. This was not strictly true, since two major developments occurred which modified the social grouping. The first was the influx of east European Jews: in the 44 years after 1870 two million Jews (60% of them from Russia) immigrated to America (Handlin, *Adventure in Freedom*, pp. 80–84). Since the economic opportunities and the numbers concerned differed from those of an earlier generation there emerged for the first time, after 1880, an extensive Jewish proletariat. There arose, on the economic, doctrinal, and cultural levels, a cleavage between German and Russian Jews — what has been referred to as the rise of two distinct communities. In fact a *modus vivendi* was established, within which the German Jews were always ready to extend philanthropic and communal aid to the east Europeans, but were unwilling, for obvious reasons, to compromise with their accepted social values. Uptown society stayed uptown. (For all this, see Handlin, *Adventure in Freedom*, Chapters six and seven.)

The second, and more successful, challenge to social autonomy was more long-term in its operation. It consisted of the pressure to identify with the larger society. On the one hand, over the years American society as a whole became less rigid and conventional — willing to accept Jews on the basis of their positive achievements. On the other hand, this growing tolerance was balanced as the businesses grew prosperous by succeeding generations who felt less compulsion to sustain the family firm by direct participation and who (on the basis of their enjoyment of higher education) looked to a career in law, or medicine, or science, or teaching. The inevitable social assimilation was begun, and this was very strong even where the person remained closely attached to his business. Thus John M. Schiff, Jacob's grandson and the present senior partner of Kuhn, Loeb & Co., after graduating from Yale (1925) and Oxford (1927) married George F. Baker's granddaughter in 1934.

ness activity? This can best be considered from two points of view: the internal strength and structure of the firm, and the relationship between the individual business and the financial world outside it.

III. Business Implications of an Elite

(a) *Intermarriage and the Family Business*

It is, perhaps, possible to argue that historically the primary social unit for business organization before the recent development of impersonal bureaucracies was the family. In medieval Italy the Bardi or the Medici, in sixteenth-century Germany the Fuggers or the Hochstetters, in colonial America the Browns of Providence and many other mercantile enterprises, in the early nineteenth century the Lowells and Cabots in textiles, all substantiate the proposition that men sought in marriage or blood relationships the ties which strengthened and gave security to the structure of their business enterprises. German-Jewish investment banking in the late nineteenth century, as has been seen, was also based upon the proliferation of kinship groups. In place of a set of partners united only by their common economic aspirations and, perhaps, by their regard for business unity, there was created a firm skein of common universal aspirations and interests — an identification of the family and the firm which in the early days of the Seligmans had led to a continuous pooling of capital for both private and business use, and which, at the least, would produce a heightened regard for the business and a continuity of entrepreneurial skill.

Most significant in this respect was an attitude imported from the Old World: that of family solidarity and unity. For the Seligmans, the Guggenheims, and Schiff, Friday night was family night — a time when children and grandchildren gathered in the patriarch's house. "I have made it a rule," wrote Schiff in 1890, "to spend Friday evening exclusively with my family, and I can under no circumstances vary from this." [48] All members were concerned with the affairs and well-being of their respective families and this orientation, which is noticeable in nearly all the firms, sprang directly from the structure of everyday life — nothing was more natural than to find a place for a relative. For example, Joseph Seligman for a period was plagued by the necessity of creating a position in the Seligman enterprises for Max Stettheimer, who had married Joseph's sister Babet. Thus in 1863 he reported that Stettheimer

[48] Adler, *op. cit.*, II, 321–22.

was anxious to go into importing, "and if we do not enter into it as largely as of old he will try to get other partners. . . . Nothing would please me more, were it not for dear Babet; who says as soon as Max ceases business connections with us, she will face a life more insupportable than hitherto, and begs of me, to try to keep him in. If only for her sake I deem it my duty, provided I cannot place him in Paris or Frankfort as I would prefer, to commence importing again."[49]

The repercussions of this attitude were complicated. On the one hand there can be little doubt that it served to provide a powerful, although intangible, motivation to accept entrepreneurial training; and for business activity the identity of kinship group and firm meant an added strength and unity of purpose. This coincidence, in fact, as was clearly demonstrated in the case of the Seligmans, produced a dedication, almost a compulsion, to commercial activity, which might otherwise not have been present. "I think it is our duty toward our children," wrote Joseph Seligman, "to have a decent business for them."[50] Although not every descendant came into the business, for many years it was considered normal for son to follow father, nephew to co-operate with uncle, son-in-law to participate in this particular field of economic endeavor. And this was applicable, to some extent, to the whole of American business,[51] as well as to other types of investment banking houses: an outstanding example being the Boston firm of Lee, Higginson & Co., which, from 1848 to 1918 drew 12 of its 22 partners from the two Yankee families who gave the house its name. In an activity so dependent upon confidence and trust as finance, it was to be expected that family participation should have been considered an economic advantage.

On the other hand, there were distinct disadvantages. Primary among these was the fact that the facilitation of the entry of relatives into a business might mean assuming the burden of a poor businessman. This most often must have happened unknowingly, but (as in the case of the Seligman brother-in-law) there might be

[49] Letters of Joseph Seligman, *loc. cit.*, 11 November 1863. In fact Max Stettheimer was ultimately placed in the banking house of Seligman & Stettheimer in Frankfort. Individual Seligman brothers were concerned with the Seligman firms in New York, Paris, London, Frankfort, San Francisco, and New Orleans.

[50] *Ibid.*, 18 February 1864.

[51] In the first decade of this century, of 185 top business leaders 27% "inherited their high position" through kinship ties. See Miller, *op. cit.*, pp. 288–89.

little to be done even if the fact were realized. However, this drawback need not have been disastrous. Businesses and families were organized along patriarchal lines: as long as decision-making could be concentrated, as long as the number of sellers and purchasers of securities was small, the personality of the head of the firm – his ability, contacts, and reputation – was all-important. Underneath him there might be (within reason) any number of poor businessmen who could do little lasting harm to the business because they were not near the center of decision-making.[52] In the long run, too, there was no hesitation about bringing in outside talent when it was needed – which was often tantamount to going outside the circle of blood relatives and choosing or creating relatives by marriage in order to bolster the business. Finally, it is most probable that it was only the existence of unified German-Jewish houses which enabled men to enter the realm of high finance who might otherwise have been prevented from so doing on the basis of their race and background, for it is a remarkable feature of the rest of the financial world that other prominent firms never had Jewish partners.

(b) *Social Grouping and Investment Banking*

Banking, above all investment banking, has historically called for close co-operation between competitors. More than this, credit, confidence, security and reputation are so important that there has always been a need to formulate methods for testing credit and ensuring confidence. Such a process is today institutionalized and given an impersonal, objective character, but in the formative years of the capital market there were few effective substitutes for personal acquaintanceship and private knowledge. It would therefore seem likely that the ethnic elite under consideration here would find its social structure eminently useful for its business activity. This was in fact so. Yet it would be erroneous to claim either that the group had a monopoly of investment banking, or that its members worked exclusively with each other and therefore in some way subsidized each other's success on the intangible basis of religious affiliation. In fact, before 1906, when Goldman, Sachs, anxious to get into railroad banking, began to buy up the shares of a particular company,

[52] One corollary of this hypothesis would be that as, in the twentieth century, the habit of investing in securities spread through the population, the newly important factor became *selling* — getting close to the customer — and this necessitated a new organization and a new set of attitudes. With the patriarch no longer so important, the firm, formerly tightly bound to the family, changes its character and orientation.

James Speyer called Henry Goldman aside and warned him off, with the statement that newcomers were not wanted in the field. Goldman accepted this advice (which was backed by a threat to weaken the market) and also a concurrent offer to buy the shares at cost plus 6 per cent. In the New York money market it was normally the financial standing, not the ethnic background, of a house, its credit and expertise, not its religion, which in the long run determined whom it would work with or who would engage its services. From the Civil War, Kuhn, Loeb and the Seligmans may have been well-known bankers and underwriters, and much in demand. But then so were Jay Cooke, Fisk and Hatch, Levi P. Morton, George F. Baker, J. P. Morgan, and James Stillman. It has, indeed, been pointed out that the growth of American financial capitalism in the period was the work of no more than six firms and hardly 12 men – and of these Jacob Schiff was the only one *not* a descendant of New England, Puritan stock.[53] In the upper ranks, Kuhn, Loeb, after its epic battle with the Hill-Morgan interests for control of the Northern Pacific, won full recognition and participated with Morgan in many flotations,[54] while Schiff's deep friendship and business cooperation with Sir Ernest Cassel, a German Jew who was spectacularly successful in English finance, was entirely undisturbed by the latter's apostasy and complete identification with the English aristocracy. That the German-Jewish group was in any case not entirely insular in its business activities is equally clear from a brief study of available data on underwriting syndicates.[55]

Nevertheless, there can be no doubt that in their formative years certain firms and individuals found their ethnic background, in part as a counterbalance to their lack of established reputation, a positive help in soliciting, obtaining and effecting business within the U. S. A. It would be unlikely, on general grounds alone, that a banker, especially one fresh into the field, casting around for clients or associates could afford to ignore the social and religious milieu in which, above all others, he was pre-eminently at home. In this

[53] Fritz Redlich, *The Molding of American Banking, Men and Ideas, Part II, 1840–1910* (New York, 1951), p. 381. The relevant firms and men were: J. P. Morgan & Co. (J. P. Morgan); First National Bank of New York (James Stillman); National City Bank of New York (George F. Baker); Kuhn, Loeb & Co. (Jacob H. Schiff); Lee, Higginson & Co. (James J. Storrow and Gardiner M. Lane); Kidder, Peabody & Co. (Robert Winsor).

[54] *Ibid.*, p. 373.

[55] See, for instance, Robert T. Swaine, *The Cravath Firm and Its Predecessors, 1819–1947* (New York, 1941), 3 Volumes, *passim; A Centennial, Lehman Brothers, 1850–1950* (New York, 1950), *passim.*

respect, the firm of Goldman, Sachs & Co. is particularly interesting.

Marcus Goldman had a thriving clothing store in Philadelphia until 1867. After a brief retirement he opened, in 1869, a New York commercial paper house, which was joined by his son-in-law Samuel Sachs, and derived its present name, in the 1880's. In its early years a great amount of business was transacted with diamond dealers and leather merchants, who took the notes of retailers, endorsed them, and sold them to Marcus Goldman; and this business was clearly facilitated by the fact that most of these customers were Jewish – as were many of the dry-goods and hardware merchants with whom he also had dealings.[56] As the firm progressed it also began to do business with enterprises headed by close friends of Goldman. This applied to Sears, Roebuck (whose president, Julius Rosenwald, was a cousin of the Sachses), the cigar-manufacturing businesses of Jacob Wertheim, Rice, Stix Dry Goods Co. (Henry Rice), and the May Department Stores (David May).

Goldman, Sachs strengthened its growing business by extending its financial contacts. In the context of world capital flows, Europe was an important source of short-term, as well as long-term, funds. In the context of the partners' background, proclivity for travel, and cosmopolitan outlook, it was natural that they should turn to Europe. From 1897 to 1906, anxious to build an international business in order to furnish American clients with letters of credit and foreign exchange, they developed relationships with Kleinwort Sons & Co. (a London firm of German origin), Wagg & Russell (London), S. Japhet & Co. (London), and with firms in Amsterdam, Berlin, and Zurich.[57]

Although some attention was devoted to the investment market in the late nineteenth century, it was really in the first decade of the twentieth that Henry Goldman (son of the founder) and Samuel Sachs turned their minds seriously to the potentialities of investment banking. Mr. Walter E. Sachs (Samuel's son and Henry Goldman's nephew), in his deposition in the recent case of *U. S. v. Morgan Stanley & Co., et al.*, stated:[58]

> It has apparently been the dream of my uncle and my father — and I know this from my youth — to get into the underwriting business. At that time the

[56] For the role of Jewish businessmen in diamond jobbing, hardware, cigar manufacturing, etc., see Markens, *op. cit.*, pp. 153 ff.

[57] *United States of America v. Henry S. Morgan, Harold Stanley, et al., doing business as Morgan Stanley & Co., et al.* (hereinafter referred to as *U. S. v. Morgan*), Vol. 18, *Transcript of Trial*, p. 6654.

[58] *Ibid.*, p. 6631.

railroad business and the utility underwriting business was done to a very great extent by a number of — a small number of other firms. . . .

Their idea was — and they pioneered it in a way — that there was an open field that had not been entered to any great extent in so-called industrial financing, and this thought was conceived . . . of financing privately-owned businesses and incorporating them, inducing people to incorporate their businesses, and selling those issues to the public.

By 1906 Goldman, Sachs had increased its capital from the $100,000 of 1892 and the $500,000 of 1894 to $3,000,000. At this ripe moment the firm did in fact move into investment banking – in the process making judicious use of a combination of personal and business contacts. The first flotations handled, both in 1906, were United Cigar Manufacturers ($4,388,000 of 7 per cent preferred and $900,000 common) and Sears, Roebuck ($8,775,000 of 7 per cent preferred and $2,250,000 common). Both firms were led by men of German-Jewish extraction very close to the Goldman-Sachs kinship group,[59] and both, as already mentioned, had been clients of the firm in its commercial paper dealings. Unknown in the underwriting world as Goldman, Sachs & Co. was, it is highly probable that only such personal relationships enabled it to convince the two clients of its ability to handle the business. And once having secured it the firm had to lean even more heavily on the intangible factor of friendship. For associates were needed to help supply capital and it was clear that, in view of its inexperience, no established house would fully participate without the strongest safeguards. In these circumstances it was only natural to turn to Lehman Brothers, where Philip Lehman was not only a member of the German-Jewish elite, but also a close personal friend of Henry Goldman: [60]

"I would like," said Walter E. Sachs to the court, "to give you the concept, that prior to 1906 Henry Goldman and Philip Lehman were close personal friends. I can remember from the days of my youth they and my father lunched together on the second floor at the rear, at old Delmonico's downtown. . . .

"And so our firm . . . apparently turned to Lehman Brothers and said, 'Here is the idea, here is what we want to do. . . .' "

On this basis the Lehmans diverted some risk capital from the commodity exchanges to underwriting and both the 1906 deals were

[59] The men were Jacob Wertheim and Julius Rosenwald. Both were native-born, Rosenwald being the son of an immigrant peddler and storekeeper in Springfield, Illinois. For Rosenwald's relationship with the Sachses, see Chart I. Wertheim was a close friend of Rosenwald and was one of the first investors in Sears, Roebuck.

[60] *U. S. v. Morgan*, Vol. 62, *Motions to Dismiss*, pp. 8–9. Arthur Lehman and Arthur Sachs "also were very close friends and close business associates." *Ibid.*, Vol. 21, p. 9082.

carried through successfully — with some help from Goldman, Sachs' overseas correspondents, to whom the firm turned "to find people who would underwrite and take this underwriting risk,"[61] and from Speyer & Co. at home, who subscribed for $1,000,000 of the Sears, Roebuck issue. Thus Goldman, Sachs, in their incursion into investment banking, utilized the pre-existing structures: on the one hand the social matrix, on the other the system of American clientele and European contacts who had placement facilities with investors abroad. Nevertheless, their methods were still unsophisticated — transactions were joint ventures and they "purchased security issues directly from issuers and divided equally the profit which was realized from their sale." With no effective network of distribution, as much as possible was sold to individual investors and the Sears issue took three months to place.[62]

From 1906 to 1924 Goldman, Sachs and Lehman Brothers continued to co-operate and the informal partnership headed 144 issues for 56 issuers,[63] largely concentrating on firms engaged in distribution or light manufacturing. In the two firms' parallel development as investment bankers the same pattern appeared by which old commercial paper clients of Goldman, Sachs and social acquaintances in general were utilized to further the new activity. In 1907 they underwrote a debenture issue for Schwartzchild & Sulzberger, a meat-packing firm of German-Jewish origin. In 1910 they handled a large preferred and common stock issue for the Underwood Typewriter Company, after Henry Morgenthau (a member of the elite whose daughter married Maurice Wertheim), who was a director of the typewriter company and most friendly with Henry Goldman, had introduced him to John Underwood.[64] In the same year they transacted similar business with May Department Stores, whose head, David May, was also of German-Jewish parentage and had had prior dealings with Goldman.[65]

Yet as time passed, as their business dealings became more sophisticated, as they themselves came to be better known and to develop specialist staffs,[66] and to enter the industrial field, so Goldman, Sachs

[61] *Ibid.*, Vol. 18, p. 6654.

[62] *Opinion of Harold R. Medina, United States Circuit Judge in United States of America, Plaintiff, v. Henry S. Morgan, Harold Stanley, et al., doing business as Morgan Stanley & Co., et al.* (Filed, October 14, 1953), pp. 21–22, 25.

[63] *Ibid.*, p. 313.

[64] *U. S. v. Morgan*, Vol. 62, *Motions to Dismiss*, p. 66; *ibid.*, Vol. 18, p. 6773.

[65] *Ibid.*, Vol. 18, p. 6634.

[66] For example, in merchandising and retail store methods. As investment

came to rely much less on the social structure which had originally strengthened their commercial relationships and more on the impersonal institutional arrangements produced by the working of market forces. There was, consequently, a break with Lehman Brothers (in 1924), which was first hinted at when Waddell Catchings joined Goldman, Sachs in 1917 and confirmed when John M. Hancock went into Lehman Brothers, for neither was connected with the German-Jewish social group, both were the first "outsiders" in their respective firms, and both were to play important roles. Goldman, Sachs began to reflect that equal division of the profits between the two firms was an inequitable arrangement in view of the facts (as they saw them) that they made the first approaches, secured the clients, did most of the work and incurred most of the expense. It was a social structure as well as a business partnership which began to crumble when the firm started to look upon their co-operation with Lehman Brothers "from a business standpoint rather than as a friendship relationship." [67]

This lengthy example is one of the few documented cases allowing us to trace a specific interaction between the cultural milieu and the business dealings of this group. Although Goldman, Sachs may have been outstanding in this respect, clearly the support which financial activity derived from the social cohesion was considerable, if unmeasurable. Thus, Jacob Schiff was most friendly with the Guggenheim brothers and had a high opinion of them – he took a keen interest in their enterprise, Guggenex, and helped finance it. At least twice he also used his English contacts to help the brothers obtain capital: in 1891 and again in 1904, when he introduced Dan Guggenheim to Sir Ernest Cassel and the three of them formulated plans for a $17,000,000 flotation.[68] It would be erroneous to claim that this type of contact excluded all others in the financial world of the late nineteenth and early twentieth centuries; but it would be equally misleading to ignore the fact that a social elite would naturally, and perhaps (in view of the importance of personal trust) most economically, utilize its own structure as a basis for much of its economic transactions. One thinks, in this connection,

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bankers the firm had dealings with Sears, Roebuck, Stern Brothers, May Department Stores, F. W. Woolworth, and S. H. Kress.

[67] The quotation and much of the data included in the above paragraph are taken from a MS memorandum on Goldman, Sachs which Mr. Walter E. Sachs kindly showed to the author.

[68] Adler, *op. cit.*, I, 155–58; O'Connor, *op. cit.*, pp. 133–35.

of the Jacksons and the Lees in Boston commerce,[69] or the Cabots and the Lowells in New England textiles,[70] or the great Quaker ironmasters in eighteenth-century England, or the commercial aristocracies of medieval Italy. In fact, one might hazard the hypothesis that for most of business or economic history a stabilized, firm social network (as well as a tightly knit family) has been, in effect, a means of *business organization*; that prior to the formal institutionalization of interfirm relationships the formation of in-groups was a valid and often necessary means of creating an identity of interests and attitude most conducive to business activity and development.

In one sense, therefore, the ethnic character of the in-group considered here, while all-important as an extreme criterion of demarcation, was only a secondary factor. Of primary importance were the uniformity of values and outlooks and the sense of identity which resulted. But on the other hand, the importance of the group's national and cultural characteristics is brought out when we consider the American investment bankers in relation to Europe. On the whole in the late nineteenth century there were two basic groups of investment bankers: the New Englanders and the German Jews. It is to be hoped that one day the former will be analyzed and compared with the latter. But initially it seems possible to say that the German-Jewish groups had a strategic role to play in the provision of capital from Germany for America's industrial development. While the Yankee bankers were able to tap the capital resources of old England, it was the Germans who were able, through cultural, social and linguistic affinities, to draw German capital across the Atlantic. As early as the Civil War the Speyers and the Seligmans had played a major role – overcoming Rhineland reluctance to subscribe to federal loans. Indeed, a remarkable feature of the bankers' operations was their cosmopolitan outlook. Goldman, Sachs created intimate relationships with houses in London, Amsterdam, Berlin and Zurich. The Speyers, of course, were from the beginning closely tied to Speyer-Ellison in Frankfort and, later on, to Speyer Brothers in London. Kuhn, Loeb & Co. had close connections with Europe – one with *Disconto Gesellschaft*, and another very strong one with Sir Ernest Cassel, which was well buttressed by a personal friendship between him and Schiff, and which also led to Cologne and Frankfort. Hallgarten & Co. was allied with the

[69] Kenneth W. Porter, *op. cit.*, Vol. I, pp. 88–99, and *passim*.
[70] Lamb, "The Entrepreneur and the Community," *loc. cit.*, *passim*.

Darmstaedter Bank. The Seligmans constructed the strongest network of all – not even relying on existing firms abroad. Once the decision to enter international banking had been made in the 1860's, the eight brothers, under Joseph's patriarchal guidance, set up houses in London, Paris, and Frankfort: each house controlled by one or more brothers. With J. & W. Seligman & Co. in New York (1864), J. Seligman & Co. in San Francisco (which became a fully fledged banking house in 1867), Seligman, Hellman & Co. in New Orleans (1865), Seligman Brothers in London (1864), Seligman & Stettheimer in Frankfort (1864), and *Seligman Frères et Cie* in Paris (1868), the family was unrivaled in its international framework. Throughout the last decades of the century houses such as Kuhn, Loeb or Hallgarten demonstrated a supreme ability to establish contact with sources of supply of German capital.

From this point of view the rise of an investment market, with all that that meant in terms of economic growth, might have been very different without the influence of these men, and without the solidarity and progress of this particular financial and social grouping.

APPENDIX

I am deeply indebted to the following for general information concerning the German-Jewish banking community, which resulted from interviews with them: Mrs. Angelika W. Frink, Mrs. Charles Rose, Mr. Harold L. Bache, Mr. Walter E. Sachs, Mr. John M. Schiff, and Mr. Pierre Stralem. I have acknowledged in the text specific details which I derived from such interviews.

In general, giving footnote references for each particular fact in the article would have proved too tedious a procedure. Therefore only the most important references were given, and there follows here a list of sources most useful. (Much biographical and genealogical information was obtained from various editions of such standard reference works as *Who's Who in American Jewry, Who's Who in Finance, Who's Who in New York*, etc.):

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The Eastern Rail-road Company, 1855-1884

The main lines of the Eastern Rail-road served a rich coastal trade, yet even in an age of great commercial expansion this historic railroad enterprise courted continual disaster. The crisis of 1855 (Spring, 1957, Business History Review) *had been compounded out of unprofitable branch connections, poor management, and a major defalcation. Reorganization promised a better future, but history repeated. Management generally chose to cover up, rather than correct, the operational and financial weaknesses that existed. New mistakes were made — and concealed. Ineffective management controls left power concentrated in a few careless hands. The inevitable final crisis in the mid-seventies paved the way for absorption of Eastern by the Boston & Maine — a major step in the building of that system. Through this narrative of repetitious error runs the thread of railroading progress — cut-and-try improvements in management techniques, in competitive strategy, and in operating methodology.*

After a promising beginning in the 1830's the Eastern Rail-road faced a financial crisis in 1853, a loss of investors' confidence in 1854, and a stockholders' investigation in 1855. These developments, traced in a previous article, focus attention on the question of why, with the lessons of experience fresh in the minds of Eastern's management, the corporation was in even more desperate circumstances twenty years later.

The Difficult Years of 1855–1862

An immediate result of the stockholders' investigation of 1855 was the replacement of nearly all of the important officials and directors. Treasurer Tuckerman's position was filled by John B. Parker, a former income clerk. Superintendent John Kinsman was followed by his assistant, Jeremiah Prescott. President Thorndike

NOTE: This article is based upon material used in the forthcoming volume on the history of the Boston and Maine Railroad.

was succeeded by John Howe for three years and then by George M. Browne, who continued in that position until 1872. Also, the board elected in 1855 was comprised chiefly of new members. Samuel Hooper, important in obtaining a loan in 1852–1853, was re-elected to the board. Succeeding his father as a director in 1849, he continued on the Eastern board until his death in February, 1875, exercising much influence and at times controlling major decisions. The Hooper family held the largest block of stock and Samuel Hooper, himself, expanded his ownership of Eastern Railroad securities about tenfold during the period he was a director.[1]

The new directors attempted to improve the financial status by selling property not needed to operate the road, by using strict economy in operations, and by continuing to forego dividends. They expressed a desire to "cut off" the Essex, the South Reading Branch, the Great Falls & South Berwick, and the Salisbury branch, which they called "suckers." Although the Essex's future in hauling coal from Salem to Lawrence seemed hopeful, by 1858 it owed the Eastern $263,989 and earned barely enough to pay the interest due the bondholders. The South Reading Branch continued to be an out-of-pocket loss. Repeatedly, but to no avail, the Eastern sought legislative permission to reduce the number of trains on that branch. The Saugus Branch was operated as a part of the main line until 1860 when it was reduced to a branch status.[2]

By 1858, the Eastern was suffering not only from the "commercial and financial revulsion" pressing upon the entire country but also from the competition of horsecar street railways in the Boston area.

[1] Complete list of nearly 3,000 stockholders printed in 1855. (N.p., n.d., copy in Boston & Maine history file, North Station, Boston.) There were 31 stockholders holding 100 or more shares each, in July, 1855. Testimony of George O. Shattuck, *Eastern Railroad Investigation, 1876* (Boston: Wright & Potter, 1876), p. 523. Samuel Hooper was an important Boston merchant and politician, serving in Congress for 14 years where he was especially important on the banking committee. See Fritz Redlich, *Moulding of American Banking: Men and Ideas* (New York: Hafner, 1951), Part II, pp. 8 ff.

[2] Annual Report of Eastern R. R., 1856, p. 10; 1857, p. 9; 1858, p. 7; 1859, p. 10; 1868, p. 8. The titles of the published annual reports of the directors to the stockholders of the several railroads vary. For convenience all references to these reports will be cited as Annual Reports. Directors' Minutes of Eastern R. R., Oct. 16, 1860; Nov. 20, 1861. By 1868, Eastern had lost $72,399 in its 15 years of operating the South Reading, besides $69,951 for loans and payments on account, and $232,573 for capital stock, totaling $374,923 in return for a very small net worth. In addition, practically all of the business could have been handled on the Eastern's other line. The Saugus Branch Railroad Company was merged with the Eastern in 1858. Stockholders' Minutes of Eastern R. R., July 12, 1858.

The horse railways appeared in the middle fifties as a new form of transportation, although there was nothing new about the car, the track, or the motive power. The horsecars were soon doing a thriving commuter traffic business in heavily populated districts [3] as a result of the novelty and lower prices, the latter being particularly attractive during the depression period. The steam railroads resented these private corporations that, without compensation, used the public streets and highways for considerable distances in direct competition with locomotive trains.

Eastern, soon losing $5,000 each summer to the horsecars between Boston and Lynn, felt forced to retaliate.[4] A single-unit steam car, constructed and operated by one Mr. Beard, was introduced. Beard's unit car – probably the same one built in the early fifties at Manchester, New Hampshire, and used for a while on the Concord Railroad – was designed to effect a large reduction in costs per passenger-mile by reducing the amount of dead weight to one-fourth that necessary in regular trains. In actual performance on the Eastern during a few weeks in the autumn of 1860, the operating cost of the unit car was only 20 cents per mile whereas that of a regular passenger train varied between 80 cents and $1.20. Despite low fares, however, the steam car was decidedly unpopular with the public. Acceding to the public reaction and encouraged by a temporary injunction against the competing horse railway the Eastern discontinued the steam car, the first forerunner of the modern Budd car. When the injunction expired, the Eastern met the continued horsecar competition with lower rates on regular trains and finally recaptured the traffic.[5]

The change in the relation between operating expenses and operating revenues was noticeable. The drop in business in 1857 induced the Eastern directors to reduce the number of trains in

[3] The 57 miles of horse railways in Massachusetts in 1860 had total revenues of $793,617, an amount greater than the receipts of any of the steam railways in Massachusetts except for the Western, the Boston & Worcester, and the Boston & Maine. Abstract opposite p. 5, in Public Document No. 46, *Returns of the Railroad Corporations in Massachusetts, 1860. Together with Abstracts of the Same* (Boston, 1861). Hereafter these returns will be cited as Mass. R. R. Returns.

[4] Annual Report of Eastern R. R., Nov., 1861, pp. 8–9.

[5] *American Railway Times*, Oct. 27, 1860, p. 428; Annual Report of Eastern R. R., 1862, p. 6. Notice that the volume of traffic mentioned was too large to be carried on a unit car. The absence of any reference to a unit car, as well as the comments in the *American Railway Times* for Oct. 27, 1860, and Feb. 8, 1862, suggest that only full-size trains were used after the experiment of September and October, 1861.

October and the number of employees and their pay the following month.[6] Another method of decreasing expenses was the introduction of coal-burning locomotives in 1859. By 1861 all of the main freight and passenger trains were moved by coal burners, but this change-over involved the immediate extra expense of converting the locomotives from wood to coal.[7] Another important factor in operating costs was the expensive maintenance of pile bridges. In 1854 a program was inaugurated to fill them with dirt, again raising the immediate charges to secure ultimate savings.[8] Consequently, the larger maintenance costs in conjunction with smaller revenues produced an increase in the operating ratio. Whereas 45 cents of the average revenue dollar were spent for operating expenses in 1854, 65 cents were used for that purpose by 1860.

Two years after the crisis of 1855, the stockholders instructed the directors not to resume dividends until the floating debt was completely paid or funded.[9] Although the directors already had funded most of it, the depression in 1857–1858, the competition from the horsecars, and the disturbing influence of the Civil War delayed the process until 1861, when dividends of 4 per cent were paid. The revenue for tnat year was 13.9 per cent less than the total of the operating expenses and fixed charges, but there had been an annual surplus during the previous eight years and it was drawn upon to pay the two semiannual dividends of 1861. Dividends were passed in 1862, however, even though 14.6 per cent of operating revenue was available.

The Return to Prosperity

The future was encouraging, nevertheless. The war depression was over by the middle of 1862.[10] Earnings per share, which had fallen off in 1857 and 1858 and were nonexistent in 1861, climbed to $6.64 by 1863. Eastern's total debt was reduced more than one-third between 1855 and 1863.[11] This had been accomplished by

[6] Directors' Minutes of Eastern R. R., Oct. 15 and Nov. 19, 1857.
[7] Annual Report of Eastern R. R., 1859, p. 12; *ibid.*, May 31, 1861, pp. 4, 7.
[8] *Ibid.*, 1858, p. 6.
[9] Stockholders' Minutes of Eastern R. R., July 13, 1857.
[10] Annual Report of Eastern R. R., 1862, p. 4.
[11] The Massachusetts state loan of $500,000, due in 1857, was extended 10 years, to be paid in installments between 1865 and 1871. Mass. Act of May 23, 1857, c. 220. (Copy in *Boston & Maine Railroad System*, Vol. III, *Statutes of Massachusetts Relating to Boston & Maine Railroad and Leased Lines* [Boston, 1904], p. 22.) Hereafter this volume will be cited as *B&M . . .* [*Statutes*]. Volume II includes legislation in the states of Maine, New Hampshire, and Vermont. The *American Railway Times* of May 7, 1857, gives a detailed analysis

foregoing dividends, increasing the capital stock, holding down expenditures, and selling property not needed to operate the railroad. The improved financial position of the road is illustrated by the change in the ratio of total debt to net worth. For the average dollar of net worth there were 98 cents of debt in 1855 and only 60 cents of debt in 1863. The rapid return to prosperity between 1863 and 1869 is revealed by the following increases: 94 per cent in gross revenues, 44 per cent in net revenue from railway operations before taxes, and 34 per cent in railway operating income after taxes.[12] Expenses for wages, materials, coal, and iron accounted for the increase in the net revenue being much less than the increase in the gross revenue. The outlook for the Eastern in 1864 was in sharp contrast to the prospects in 1856. Whereas its stock had sold between 38 and 48 in the earlier year, President Browne now sold a new issue of $155,000 at 106.[13] For the first time in its history the road grossed over $1,000,000, following the Boston & Maine's similar achievement the previous year.[14]

In its return to prosperity, the Eastern was assisted by the policy of the Boston & Maine directors, who had insisted upon the remarkably successful pooling agreement of 1855.[15] At that time, the two competing roads agreed that either road doing business outside of specified territories would refund to the other road all receipts after deducting expenses. Traffic between Boston and a few stations located on the crosslines connecting the Boston & Maine and the Eastern was available to either road upon equal terms. The road doing that business was permitted to keep one-half of the net revenue.[16] The Salem-Lawrence traffic over the Essex Railroad and the area near Lake Winnipesaukee were not included, however, and soon demanded separate attention.

Competition for the coal trade to Lawrence and points north became keen by 1858 as new mills were constructed and the older ones

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of Eastern's financial situation at that time, a much more candid report than statements released by the management.

[12] Before 1862 taxes were insignificant but within a few years the annual taxes became the equivalent of 2 per cent dividends to the stockholders of both the Eastern and the Eastern in New Hampshire.

[13] Directors' Minutes of Eastern R. R., April 21, 1864; Annual Report of Eastern R. R., 1864, p. 8.

[14] The jointly operated Boston & Lowell and Nashua & Lowell followed in 1865 and the Fitchburg Railroad in 1866.

[15] Cf. commissioners' decision of Feb. 6, 1860, filed as document 110 in the Eastern Railroad contract file located in the B&M general offices, Boston.

[16] Charles J. Kennedy, "The Eastern Rail-road Company to 1855," *The Business History Review* (Spring, 1957).

turned from water power to steam. The Bay State Mills at Lawrence, for example, had a contract with the Eastern by which the railroad agreed at any time to reduce its rate between Salem and Lawrence to meet the competitive rate of the B&M between Boston and Lawrence. In order to prevent a rate war the two roads agreed to set equal rates on coal, plaster, and lime and to divide the business. The arrangement was terminated two years later by the Boston & Maine directors who concluded they could make more money in "open competition." When the Eastern purchased the Essex Railroad in 1864 some of the Boston & Maine men called it a flank movement. Actually, the Eastern had operated the Essex for many years and was interested in any action that would reduce its expenses.[17]

Meanwhile, the Eastern, already financially interested in the Great Falls & Conway and the Great Falls & South Berwick railroads, combined these two branches into a new corporation, the Portsmouth, Great Falls & Conway, and operated the entire line.[18] It was Eastern's ambition to push the Conway road to a junction with the projected Portland & Ogdensburg and open a new route to Canada. In addition a short branch to the port of Wolfeborough on Lake Winnipesaukee was an immediate possibility and would compete with B&M's service to the Lake over the Dover & Winnipiseogee tracks.

By 1865 it was obvious that the B&M-Eastern agreement of 1855 needed to be replaced with a more inclusive contract. After two years of discussion and a willingness by both parties to raise fares, the agreement of 1867 was signed.[19] This agreement did not continue the division of the net revenue from business at specified competitive stations. Instead, each road set the rates between certain designated stations and the other road agreed to charge the same rate and not to engage in circuitous routing or use free passes to

[17] May 15, 1858, No. 128 in Eastern contract file; April 1, 1859, No. 118 in Eastern contract file; Directors' Minutes of Boston & Maine R. R., Oct. 17, 1860; Eastern-B&M contract of April 1, 1859, and related papers, No. 118 in Eastern contract file; *The Boston and Maine Railroad: Statement Showing the Result of Its Management for the Last Ten Years. April, 1866* (Boston: Wright & Potter, 1866), p. 16.

[18] Incorporated by Act of New Hampshire, June 30, 1865, c. 4, 150. (Copy in B&M . . . [*Statutes*], II, 326.) Cf. Annual Report of Eastern R. R., 1866, p. 4.

[19] Directors' Minutes of Eastern R. R., June 15, 1865; Directors' Minutes of Boston & Maine R. R., June 19, 1865; Feb. 20, April 1, 1867; Directors' Minutes of Eastern R. R., March 2, 1867; April 11, 1867; Annual Report of Eastern R. R., 1868, p. 4; Directors' Minutes of Boston & Maine R. R., April 17, May 30, 1867; Contract No. 113 in Eastern contract file.

augment the freight business at those points.[20] Also, the Boston & Maine agreed not to run through cars on the Danvers between Salem and Boston.

A small contribution to the increased prosperity of the Eastern was the purchase in 1868 of the Rockport Railroad, a 3.74 mile extension of the Gloucester branch opened in 1861 and operated by the Eastern. The operation had been remunerative and the purchase price was reasonable.[21]

During the prosperous sixties, necessary improvements added considerably to Eastern's debt. As the passenger-miles and ton-miles continued to increase, it became necessary to enlarge the rolling stock and depot facilities and improve the track. Between 1864 and 1867, 14 locomotives were added, bringing the total to 41. A large number of cars were constructed, many of them in the company's Salem shops established in 1866 or 1867.[22] Various depots were reconditioned and freight houses extended. Much rail was relaid in 1867–1868 largely because of the poor quality of the iron purchased just prior to that date. The directors reported to the stockholders that "extraordinary" expenditures for 1866–1868 totaled $1,646,619 but they hoped that additional heavy outlays would not be necessary the next few years. They asked for authority to issue $1,000,000 in bonds to reduce the floating debt of $853,200 and meet bonds maturing the next two years. Six per cent bonds, costing 6⅕ per cent, were presented as less expensive than stock, considering the desired 8 per cent dividend and the U. S. tax on income, introduced during the war.[23] The stockholders voted the bonds on February 1, 1869, and $500,000 of them were sold at 92 within a few weeks.[24]

In 1869 the Eastern management rejoiced in the prospects of the future. An argument with the Boston & Maine over the interpretation of the joint contract for the operation of the Portland, Saco & Portsmouth Railroad was settled in Eastern's favor in December. Whereas two-thirds of the freight to and from the PS&P had been passing over the Boston & Maine without any division of revenues with the Eastern, the referee's decision required an equal division

[20] The Eastern president was to specify the rates between Boston and the stations of Salem, Danvers, and Newburyport whereas the B&M president was to specify the rates between Boston and the stations of Lawrence, Great Falls (Somersworth) and Salmon Falls.

[21] Annual Report of Eastern R. R., 1875, p. 8.

[22] *Ibid.*, 1867, pp. 4, 5; *ibid.*, 1869, p. 5.

[23] *Ibid.*, 1868, pp. 7–9.

[24] Directors' Minutes of Eastern R. R., March 16, 1869.

of net revenues between the Boston & Maine and the Eastern.[25] The prospects for a continuing increase in the freight business led President Browne to make a preliminary arrangement with the Boston & Lowell for the Eastern to obtain the old B&L depot in Boston and more space for the freight yards.[26] Such was the enthusiasm in 1869, yet six years later the road faced bankruptcy!

Management or Mismanagement?

From 1870 to 1875, the Eastern Rail-road lost $6,155,600, in addition to $2,089,780 in earlier years, from unfortunate and/or unnecessary expenditures and commitments.[27] These losses loomed in significance when compared to (1) annual gross operating revenues varying from $2,000,000 to nearly $3,000,000 during the early seventies and to (2) the total debt of $14,833,500 by 1875. In fact, by 1875 the income was insufficient to pay the interest charges![28] Did circumstances require the Eastern management to make these unfortunate decisions?

George M. Browne, president from 1858 to February, 1872, certainly shared in the responsibility for the financial losses. Although the Eastern board had a finance committee, it was the practice for the president, at least by 1872 if not much earlier, to approve all bills. The individual members of the committee acted merely as advisers.[29] The treasurer, John B. Parker, "usually obeyed the president in every particular."[30]

Four important commitments made during the last few years of Browne's presidency resulted in spectacular losses. One of these concerned the Portsmouth, Great Falls & Conway Railroad, operated by the Eastern.[31] About $750,000 were lost on this project, largely

[25] Copy of referee's decision of Dec. 14, 1869, in Annual Report of Eastern R. R., 1869, pp. 14–15.

[26] Letter of George M. Browne to Gen. George Stark, Dec. 8, 1869, copy in Directors' Minutes of Boston & Lowell R. R., Dec. 28, 1869. Nothing materialized on this project, however.

[27] According to President Samuel C. Lawrence in the Annual Report of Eastern R. R., 1875, pp. 44–45. His total figure is $8,245,380 (erroneously printed as $8,245,980) which we have divided by computations made from information in the Annual Reports and from *Eastern R. R. Investigation, 1876*, p. 6.

[28] With a net railway operating revenue of $635,150, the corporation was obligated to pay $1,135,296 as follows: $42,018 for taxes, $200,916 for rents, and $892,362 for interest.

[29] Haven, in *Eastern R. R. Investigation, 1876*, p. 151.

[30] Parker, in *ibid.*, p. 16.

[31] A corporation, chartered June 30, 1865, to combine the Great Falls & Conway and the Great Falls & South Berwick railroads.

while Browne was president.[32] Some of the bridges on the 74-mile road were so poorly erected in 1871–1872, when the northern half of the road was constructed, that it was necessary to rebuild them the next year.[33] The traffic never fulfilled the wild dreams of the Eastern directors. They had anticipated considerable business with Canada and the White Mountains region from the Portland & Ogdensburg. For some time this road was not constructed west of Intervale.[34] Although the Portsmouth, Great Falls & Conway made enough to meet current expenses, it did not become a profitable feeder.[35]

The Wolfeborough Railroad, another major expenditure, was definitely a mistake. It cost the Eastern $289,400 for its share of the construction in 1872, and a further out-of-pocket loss each year to operate the line.[36] The third and fourth expensive commitments, entered into during Browne's presidency and concluded by his successors, involved the erection of a second depot at Lynn and the consummation of new relations with the Portland, Saco & Portsmouth and the Boston & Maine railroads.

There was yet another major loss during Browne's administration — the terrible collision of two Eastern trains at Revere on the night of August 26, 1871, in which 29 persons were killed and 57 injured. Besides damages to persons and property amounting to $510,600, the Revere accident precipitated a large expenditure for safety improvements.[37] Public denunciation was severe, the well-known Wendell Phillips declaring the road to be guilty of "deliberate murder." [38] On the market, Eastern's stock began to slip.[39] Prior to the accident, Eastern had experimented with the Creamer Safety Brake which, unfortunately, proved unsatisfactory, whereas the Westinghouse air brake, patented in 1869, was used successfully on

[32] *Eastern R. R. Investigation, 1876*, p. 6 of the committee report; Annual Report of Eastern R. R., 1875, pp. 25–28.

[33] *Ibid.*, 1873, p. 6.

[34] For Eastern's relation with the Portland & Ogdensburg, see the Directors' Minutes of the Eastern, Nov. 26, 1873, Sept. 23, 1874; Annual Report of Portland & Ogdensburg R. R., 1874, p. 7; contract between Eastern and the P&O, in the Directors' Minutes of the Maine Central R. R., pp. 78–86, following entry of June 5, 1874.

[35] Annual Report of Eastern R. R., 1875, pp. 25-28.

[36] Stockholders' Minutes of Eastern R. R., Feb. 7, 1870; Directors' Minutes of Eastern R. R., Feb. 29, 1872; Annual Report of Eastern R. R., 1875, p. 29.

[37] *Ibid.*, 1875, p. 34.

[38] Francis B. C. Bradlee, *The Eastern Railroad* (Salem: Essex Institute, 1917), p. 77.

[39] Annual Report of Eastern R. R., 1871, p. 10.

the passenger trains of the Boston & Providence and the Old Colony railroads. After the Revere disaster, the Eastern immediately adopted the Westinghouse brake,[40] the Miller platform, and Hall's automatic electric signals.[41]

George Browne retired as president and director in February, 1872, and was succeeded by Thornton K. Lothrop, a son-in-law of Samuel Hooper. During Lothrop's administration of 24 months the financial weakness of the company became critical. It should be recognized, however, that Lothrop took over the road with two costly legacies, the Lynn depot and the strained relations with the Boston & Maine over the Portland, Saco & Portsmouth Railroad.

The Lynn Depot Fiasco

For a number of years a feud was carried on in Lynn, Massachusetts, concerning the location of the depot at Central Square. A dissatisfied group favored a site about 1,500 feet away on Pleasant and Market streets but was unable in 1847 and again in 1859 to persuade the railroad to change location.[42] In 1871, John H. Alley not only prevailed upon the Eastern to build a depot at the new location but also made a tremendous personal profit on the deal. Shrewd and unscrupulous, he approached both the Boston & Maine and the Eastern, pointing out that with the construction of only a six- or seven-mile branch the Boston & Maine could extend its line into Lynn to the proposed depot site. Although the Boston & Maine was not interested, Alley did not indicate this to the Eastern directors, who finally agreed in the face of the supposed B&M entry to build a depot at the new location. John Alley and others donated the land for the depot upon the condition that one-half of the trains would stop at this new station on Market Street. The construction contract went to Alley. At the same time he sold Eastern about three additional acres for $200,000 which until that time had been assessed for tax purposes at $4,500. Alley, who had anticipated a profit of $150,000, netted only $80,000, paying the balance to certain relatives who had been the actual owners of the land and to General Benjamin Butler for "legal services." [43]

[40] Described in an Eastern time book, quoted by Bradlee . . . *Eastern R. R.*, pp. 65–66.

[41] Annual Report of Eastern R. R., 1875, pp. 36–37.

[42] Directors' Minutes of Eastern R. R., Sept. 2–3, 1847; Petition dated April 28, 1859, in Eastern's historical file, B&M Contract Bureau, North Station, Boston.

[43] Testimony of Haven, Alley, Silver, and Parker in *Eastern R. R. Investiga-*


THE EASTERN RAILROAD
AND PRINCIPAL CONNECTIONS
1836 - 1884
PORTLAND
MAINE
WINNEPESAUKEE
BOSTON
CONCORD & MONTREAL
CONCORD
NEW
HAMPSHIRE
CONCORD R.R.
GREAT
FALLS
SO. BERWICK
JUNCTION
DOVER
PORTSMOUTH
MANCHESTER
NASHUA & LOWELL
NEWBURYPORT
LAWRENCE
LOWELL
MASS
BOSTON & LOWELL
GLOUCESTER
SALEM
MARBLEHEAD
FITCHBURG R.R.
BOSTON & WORCESTER
BOSTON
BOSTON & PROV.
OLD COL.
KEY TO ROADS NOT
NAMED ON MAP
BOSTON & MAINE BEFORE 1873
BOSTON & MAINE 1873 EXTENSION
COCHECHO, REORGANIZED 1862-3
AS DOVER & WINNIPISEOGEE
DANVERS
DANVERS & GEORGETOWN
EASTERN
EASTERN R.R. IN N.H.
ESSEX
ESSEX BRANCH
GRAND TRUNK
GREAT FALLS & CONWAY
GREAT FALLS & SOUTH BERWICK
MAINE CENTRAL
MANCHESTER & LAWRENCE
NEWBURYPORT
PORTLAND & OGDENSBURG
PORTLAND, SACO & PORTSMOUTH
PORTSMOUTH & DOVER
PORTSMOUTH GREAT FALLS &
CONWAY (SECTION BUILT AFTER
1865)
SALISBURY BRANCH
ROCKPORT
SAUGUS BRANCH
SOUTH READING BRANCH
WOLFEBOROUGH
YORK & CUMBERLAND

One of the first actions of Lothrop's presidency was the replacement of the old Lynn depot at Central Square with a new structure, even though John Alley had completed the Market Street depot the previous year. It was said that Alley's building was unusable because the cast-iron pillars and iron roof were unsafe. Lothrop, without consulting the board, solved this problem by razing the Market Street depot and instructing the treasurer to pay Alley the required $100,000 for breaking the contract in regard to stopping one-half of the trains at that depot. Altogether, the railroad had spent $501,000 in Lynn for which it now had one new depot on the original site at Central Square and several acres of land for which it had no immediate use.[44]

Alley and his followers were still dissatisfied. After two years of agitation, they obtained the backing of Boston and East Boston real estate companies and built a three-foot gauge road, incorporated as the Boston, Revere Beach and Lynn Railroad.[45] The road was finally opened on July 28, 1875, to compete with the Eastern.

The PS&P Lease

Another large expense inherited by Lothrop from Browne's presidency was the excessive 10 per cent lease of the Portland, Saco & Portsmouth Railroad. To understand this development one must review the relations of the PS&P with its neighbors.

The joint lease of the PS&P by the Boston & Maine and the Eastern at 6 per cent apparently satisfied all parties for a number of years after the beginning of the arrangement in 1847.[46] Of course, the PS&P stockholders would have preferred more, but the payment in "gold or silver coin" was accepted without question. In 1863 the Boston & Maine and the Eastern began making their payments in the new paper money issued by the federal government, which had a market value less than that of gold or silver coin.[47] The PS&P

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tion, 1876, pp. 66, 155, 404, 409–16, 465; Directors' Minutes of Eastern R. R., Oct. 26, 1870; June 22, Oct. 11, 1871.

[44] Testimony of Parker, Haven and Wooldredge in *Eastern R. R. Investigation, 1876*, pp. 67, 83, 155, 500; Directors' Minutes of Eastern R. R., Feb. 29 and June 27, 1872.

[45] F. B. C. Bradlee, "The Boston, Revere Beach and Lynn Narrow Gauge Railroad," *Historical Collections of the Essex Institute*, LVII (Oct., 1921), 273–80.

[46] Kennedy, "The Eastern Rail-road Company to 1855," *The Business History Review* (Spring, 1957).

[47] Required by the contract of 1847. A complete copy is in the Annual Report of the Portland, Saco & Portsmouth Railroad, 1867, pp. 15–32.

stockholders accepted the paper money under protest.[48] In that year the PS&P's earnings jumped from about 6 per cent to more than 10 per cent. Even though this increase was maintained in succeeding years, because of the lease they were unable to pay more than 6 per cent dividends, whereas the Boston & Maine and the Eastern raised their dividends to 10 per cent and 8 per cent, respectively. The apparent profit, however, was not kept by the Boston & Maine and the Eastern; most of it was spent for additions and betterments on the leased road. Furthermore, the PS&P was not charged for the use of cars owned by the other roads.

The inability of the three companies to agree on a satisfactory adjustment proved to be most unfortunate. When the question of coin payments first arose during the Civil War, the Boston & Maine offered to increase the rent, which would have satisfied the PS&P, but the proposal failed for the lack of Eastern's necessary consent.[49] Although a lump sum was paid in 1869 to settle "past differences," the rent still remained at 6 per cent.[50] The next year the PS&P broke its lease. The Maine Central Railroad or some of its stockholders may have "promoted this annulment" by "offering a rental of 5 per cent in gold instead of the current rental of 6 per cent in currency." At least, this was the assertion of Samuel Lawrence, when president of the Eastern in 1875.[51] The PS&P directors were more interested in a new arrangement with the Eastern and the Boston & Maine, however, and suggested that the gross receipts of the three railroads be pooled.[52] The Eastern board was willing to accept such a proposal but the Boston & Maine directors rejected the idea.[53] They proposed, instead, that the Boston & Maine alone lease the PS&P, to which the Eastern, of course, would not agree.[54] The Maine Central formally entered the situation by offering a lease with

[48] *American Railway Times*, June 25, 1864, p. 208.

[49] Stockholders' Minutes of the Portland, Saco & Portsmouth Railroad, June 1, 1863 ff.; Directors' Minutes of Boston & Maine R. R., Dec. 17, 1864; Stockholders' Minutes of PS&P R. R., June 6, 1865; Stockholders' Minutes of Boston & Maine R. R., Oct. 4, 1865.

[50] Directors' Minutes of PS&P R. R., July 3, 13, 1869; Stockholders' Minutes of PS&P R. R., Aug. 4, 1869.

[51] Annual Report of Eastern R. R., 1875, p. 15. We have found no evidence to support or deny Lawrence's assertions. Director George L. Ward of the Maine Central maintained that the PS&P made a mistake in breaking the 1847 lease. See testimony of Ward in *Eastern Railroad Investigation, 1876*, pp. 300–2.

[52] Directors' Minutes of PS&P R. R., Nov. 23, 1870.

[53] Directors' Minutes of Boston & Maine R. R., Dec. 10, 1870; Directors' Minutes of PS&P R. R., Dec. 14, 1870.

[54] *Ibid.*, Dec. 14, 17, 1870; Jan. 7, 11, 1871.

the understanding that neither the Eastern nor the Boston & Maine would build a competing road to parallel the PS&P.[55] This arrangement would have given the Maine Central rather than the Eastern and the Boston & Maine control of the traffic between Massachusetts and Maine. While the PS&P was still bargaining, the Boston & Maine directors broke the deadlock by announcing through a news release that they proposed to build a road paralleling the PS&P.[56] Immediately, the PS&P directors leased their road to the Eastern for 10 per cent of the capital stock and the assumption of outstanding claims. Maine Central's offer of 10 per cent without the assumption of claims was rejected.[57] A struggle then ensued between the Eastern and the Boston & Maine to ascertain which would enjoy the better traffic relations at Portland with the roads to the north and east.

The Attempt on the Maine Central

During the following May and June of 1871, committees of both the Eastern and the Boston & Maine negotiated for a traffic agreement with the Maine Central. Each of the three roads was intent upon improving its competitive position.[58] Maine Central's proposed traffic agreement included an understanding to prevent the Boston & Maine from building a competing road to Portland. The Boston & Maine directors would not sign such a contract and since they were divided on a substitute offer, nothing was accomplished.[59] The Eastern, meanwhile, with its exclusive lease of the PS&P, soon made a traffic agreement with the Maine Central, providing for the division of joint rates and reserving to the Maine Central the right to lower or raise passenger and freight rates between Bangor and Boston. Also, each road agreed to pay a daily rental of $1.50 for the use of each car of the other road. In addition, Eastern promised to furnish more suitable freight facilities in Boston. President Browne

[55] Stockholders' Minutes of PS&P R. R., March 18, 1871.

[56] *Ibid.*, March 18, 1871; Directors' Minutes of Boston & Maine R. R., Jan. 11, 1871; Directors' Minutes of Eastern R. R., Jan. 13, 1871; Directors' Minutes of PS&P R. R., Jan. 13, 1871.

[57] *Ibid.*, Jan. 13, 1871; Directors' Minutes of Eastern R. R., Jan. 13, 1871; Stockholders' Minutes of PS&P R. R., March 18, 1871. Besides an undetermined amount spent for betterments, the PS&P was obligated to pay $100,000 to the Eastern and $100,000 to the Boston & Maine as a penalty for breaking the 1847 lease.

[58] Directors' Minutes of Boston & Maine R. R., May 17, June 24, 1871; Directors' Minutes of Eastern R. R., May 11, 12, June 2, July 20, 1871.

[59] Directors' Minutes of Boston & Maine R. R., May 17, June 24, Aug. 16, 1871.

and Samuel Hooper represented the Eastern in the negotiations. Although Browne would not assent to all of the terms, Hooper and the other directors adopted it on July 20, 1871.[60]

In 1872, George L. Ward, a director of the Maine Central, devised a plan whereby he would buy up the control of the Maine Central Railroad, with the aid of friends in Boston. He discussed this plan with President R. D. Rice of the Maine Central and George B. Upton of Massachusetts but not with anyone in the Eastern management. The Maine Central was in a good financial position with an excellent location, enjoying a complete monopoly of the railroad business in two-thirds of Maine and forming the only rail connection between the Boston & Maine and the Eastern railroads and the area beyond Bangor.[61]

In the meantime, Lothrop decided the Eastern should have a closer relation with the Maine Central than that provided by the traffic agreement of 1871. Eastern's current proportion of the Maine Central interline business probably would not continue once the Boston & Maine completed its own track to Portland. Previously, when the Boston & Maine and the Eastern had had equal advantages for the interline business by jointly leasing the PS&P, the Boston & Maine had received about three-fourths of the business. With this in mind, Lothrop secretly made an agreement with Ward to purchase the stock of the Maine Central with the intention that it would lead to a consolidation of the Eastern and the Maine Central.[62] One condition required Lothrop to obtain permission from the Massachusetts legislature.

Lothrop purchased Maine Central stock with money from the Eastern Railroad, with John Parker, Eastern's treasurer, acting as trustee. The method was legal and not uncommon whereby Eastern's ownership of Maine Central stock was placed in the name of an individual, permitting the acquisition without publicity. However, the use of the corporation's money for that purpose was questionable both legally and ethically inasmuch as the board not only had no opportunity to vote on it but most of the directors were completely

[60] Copy of contract in Eastern contract file, No. 1210 in B&M Contract Bureau; Directors' Minutes of Eastern R. R., July 20, 1871; Directors' Minutes of Maine Central R. R., Dec. 6, 1871; Annual Report of Eastern R. R., 1875, p. 17. The contract did not exclude the B&M or any other road and consequently was acceptable to the Maine Central.

[61] *Eastern R. R. Investigation, 1876*, pp. 262–65; cf. Stockholders' Minutes of Maine Central R. R., Feb. 6, 1873; Ward, in *Eastern R. R. Investigation, 1876*, pp. 265, 279–80, 300–1.

[62] Ward, *op. cit.*, pp. 262–68, 301.

unaware that purchases were being made. Entries on the books of the Eastern were deliberately recorded to make it impossible to detect how this money had been spent or that the Eastern even owned any Maine Central stock.[63] Lothrop and Ward desired to keep the purchase a secret in order to prevent a sudden rise in the market price of the Maine Central stock, which was fluctuating between 50 and 60.

They began the purchase in February, 1873, with partial payments on 7,614 shares so that, together with sympathetic friends, the Eastern controlled the Maine Central stockholders' meeting the next month. By June more than $300,000 had been spent by the Eastern, mostly at some $60 a share, although Judge Rice, president of the Maine Central, received $100 a share for his 1,600 shares.[64]

It was evident to Ward by April that the permission of the Massachusetts legislature for a consolidation of the Eastern and the Maine Central would not be forthcoming and also that the financial condition of the Eastern was worse than he had realized, even though Eastern's stock was still selling above par.[65] Ward abrogated his agreement with Lothrop to consolidate the two roads and in its place offered a joint management contract whereby the net earnings would be divided so that Maine Central would receive four-fifths as much for each share of its stock as the Eastern, the Eastern in New Hampshire, and the Portsmouth, Great Falls & Conway railroads would receive for each share of their stock.[66] The Maine Central and the Eastern railroads agreed on June 10, 1873, to this plan and Charles Hatch, manager of the Eastern, assumed the supervision of both lines.[67]

The joint management contract replaced the traffic agreement of

[63] Parker, Eastern's treasurer, loaned money to himself, as trustee, with which he purchased the stock through Ward, as instructed by Lothrop. (Parker, in *Eastern R. R. Investigation, 1876*, pp. 7, 8.) The stock was used as collateral to Hooper, Wooldredge and others who endorsed Eastern's notes. (Parker, *op. cit.*, p. 12.) If this had been voted by the Eastern board, it would not have been illegal or uncommon. (Shattuck, in *Eastern R. R. Investigation, 1876*, p. 174, quoting Brice's *Ultra Vires.*)

[64] Annual Report of Eastern R. R., 1875, p. 18. This report says 7,619 shares were contracted for in February, costing $533,330. Parker, *Eastern R. R. Investigation, 1876*, pp. 8 ff.; Ward, *op. cit.*, pp. 19–20. Wooldredge, a director and next president of the Eastern, was "astonished" when he learned Rice received such a high price. Wooldredge, *op. cit.*, p. 177.

[65] Directors' Minutes of Maine Central R. R., April 30, 1873.

[66] Ward, *op. cit.*, p. 268. Copy of contract in Annual Report of Eastern R. R., 1873, pp. 11–14.

[67] Directors' Minutes of Eastern R. R., June 5, 1873; Directors' Minutes of Maine Central R. R., June 13, 1873.

1871 whereby each road had paid a car rental for the use of the other road's cars. Since the car rental was a net cost of approximately $70,000 annually to the Eastern, the new contract eliminated that expense.[68]

Within a few months after its acceptance a majority of the Maine Central directors decided to abrogate the joint-management contract and offer new agreements to both the Boston & Maine and the Eastern that would permit Maine Central traffic to flow westward over either road. Fearful that in retaliation the Eastern interests would buy more stock and oust them, the majority directors of the Maine Central issued 14,000 new shares which they controlled through a trustee.[69]

Lothrop had been warned by Frank Jones that this would happen. Jones, recently added to the Eastern board, advised Lothrop either to buy enough stock to hold 50 per cent or else sell all of Eastern's holdings. Lothrop made no move until the new Maine Central shares had been issued. He, Hooper, and Wooldredge then were aroused, feeling they had been sold out. In compliance with the traffic agreement with Maine Central in 1871, the Eastern board had bought much expensive land in Charlestown to accommodate the increased freight traffic anticipated from the Maine Central. The Charlestown Mill Pond, a 58-acre tract needing an expensive fill, was purchased by May, 1873, for $1,158,000, only a few weeks before the joint-management contract with the Maine Central went into effect. Another tract, the Austin Street estate, was secured the following August and with the erection of a freight house cost about $1,310,000. Two small pieces of land between the larger tracts were then obtained for $50,000. Two years later, it was admitted that the total expenditure for these pieces of real estate was twice the actual value.[70] When the joint-management contract was abrogated Hooper, Lothrop, and Wooldredge decided the Eastern should buy enough more stock to capture the control of the Maine Central and save Eastern's investment.[71]

The cost of that effort was high. The Eastern group found stock available at various prices. However, it was only with the aid of friendly shareholders that the Eastern representatives were able to

[68] Annual Report of Eastern R. R., 1875, p. 17.

[69] Wooldredge, *op. cit.*, pp. 175, 179.

[70] Jones, *Eastern R. R. Investigation, 1876*, pp. 391–92; Annual Report of Eastern R. R., 1875, pp. 20–21, 45.

[71] Wooldredge, *op. cit.*, pp. 175, 179.

"retire" two members of the Maine Central board and elect four of their own men on March 25, 1874. Eastern had spent at least $574,000 in cash for Maine Central stock and yet was only a minority stockholder.[72]

More Unprofitable Ventures

Another excessive expenditure by the Eastern during Lothrop's presidency was the leasing or merging of four branches – the Portsmouth & Dover, the Essex Branch, the Marblehead & Lynn (or Swampscott branch), and the Newburyport City railroads. Within three years they accounted for an actual loss of $422,000.[73]

Although a railroad between Portsmouth and Dover was first chartered in 1842 and the proposal was revived eight times, nothing was accomplished until the early seventies. Amid much enthusiasm for the extension of railroads into the White Mountains country and Canada and with considerable financial aid from the two towns of Dover and Portsmouth, Frank Jones and other promoters aroused the competitive interests of both the Boston & Maine and the Eastern.[74] They succeeded in obtaining a 6 per cent lease from the Eastern in the spring of 1872 to operate the 11-mile road upon its completion in February, 1874.[75] The Eastern management did not anticipate that the Portsmouth & Dover would divert any business from the Boston & Maine but it was considered an important possession to prevent the flow of business from the Eastern to the Boston & Maine. Actually, the Portsmouth & Dover did not have

[72] *Ibid.*, pp. 176–78. By Feb., 1874, all members of the Eastern board knew about Eastern's ownership of Maine Central stock but they never acted as a board upon the subject. Haven, *op. cit.*, p. 128; Parker, *op. cit.*, pp. 8 ff. Maine Central had $3,615,800 of stock, par value. Lawrence, in Annual Report of Eastern R. R., 1875, p. 18, states that after the initial purchases of stock in Feb., 1873, which gave Eastern, together with its friends, control of Maine Central, 4,655 shares were secured in 1873 and 1874, at steadily advancing prices, except for Judge Rice's stock bought at par. That made a total of 12,274 shares costing about $925,000. Cf. p. 19 and p. 18 in *ibid.*

[73] *Ibid.*, 1875, pp. 44–45.

[74] See the statement by F. B. Rowell, dated Feb. 8, 1928, in the B&M history file, located in the B&M Contract Bureau at Boston. If the Eastern had not leased the P&D, it would have been to the advantage of the B&M to lease it and divert business from the Eastern. Cf. Annual Report of Eastern R. R., 1875, p. 30.

[75] Six per cent of the capital stock and one-half of the remaining surplus. There was never a surplus, however. Directors' Minutes of Eastern R. R., March 30, June 27, 1872; copy of lease dated June 1, 1872, printed in 1876, in B&M Contract Bureau at Boston. The towns of Dover and Portsmouth furnished $225,000 and $300,000 respectively, a total of 69 per cent of the cost of construction. Annual Report of Eastern R. R., 1875, p. 30.

enough revenue to pay the cost of the rental. Furthermore, the purchase of Nobles Island in Portsmouth and the construction of a wharf provided more facilities than were needed.[76]

The Essex Branch Railroad was another road contemplated and chartered in the forties but not constructed until the early seventies and then only with the backing of a town government. Local promoters completed a five-mile track on July 1, 1872, from a point in Essex to the main line of the Eastern which operated the branch. After a contest between the Boston & Maine and the Eastern, the road was sold to the Eastern for $95,000 and immediately proved to be another out-of-pocket loss.[77]

Another unnecessary expenditure was the construction of 4.35 miles of track between Swampscott and Marblehead in 1873 at the high cost of $175,000. There were no villages and no industries between the two points. Although the old Marblehead branch was able to handle all the business, certain interested parties, probably real estate promoters, requested the legislature to incorporate the Marblehead & Lynn Railroad in 1865. The Eastern bought it on October 1, 1872, and constructed the track a year later. The operation of the branch, as well as the purchase, added to Eastern's losses.[78]

The fourth small branch acquired at that time was the Newburyport City Railroad, a short track of less than two miles connecting the deep-water wharves with the Eastern and the Newburyport railroads. In 1864, the Newburyport Railroad, under lease to the Boston & Maine, obtained permission from the state legislature and from the city of Newburyport to extend its track to the wharves, although no construction was actually performed at that time.[79] Five years later the Newburyport City Railroad, sponsored by the city and certain businessmen, was duly incorporated. In the spring of 1871 the Newburyport City Railroad offered to lease its franchise to either the Boston & Maine or the Eastern. The Boston & Maine

[76] *Ibid.*, pp. 30–31; Directors' Minutes of Eastern R. R., April 24, 1873.

[77] Annual Report of Eastern R. R., 1875, pp. 11, 45. This is Lawrence's version. The minutes of Essex Branch have not been located and the B&M minutes do not mention the episode. Directors' Minutes of Eastern R. R., March 19, July 25, 1872; "Corporate History of the Boston & Maine System," p. 27.

[78] *Ibid.*, p. 18; Annual Report of Eastern R. R., 1875, pp. 8–9, 45.

[79] Act of Mass., May 12, 1864, c. 233. (Copy in *B&M* . . . [*Statutes*] III, p. 323); minutes of Newburyport Common Council, Dec. 30, 1864, copy on back of lease in history file of Newburyport City R. R., in B&M Contract Bureau, Boston.

would pay only 5 per cent; the Eastern offered 6 per cent and got the lease.[80] The Boston & Maine, apparently using the 1864 permit, then built a connection of less than a mile between their Newburyport Railroad and the Newburyport City Railroad so that coal could be loaded in the railroad cars at the wharves, go two miles over Eastern's Newburyport City Railroad and then be hauled over the B&M system to Lawrence.[81] This route enabled the Boston & Maine to compete successfully with Eastern's coal trade between Salem and Lawrence over the old Essex. Thus, Eastern was saddled with a $6,000 annual rental and yet lost some coal business that it could not recover.[82]

Eastern money was used to purchase wharf privileges at Bar Harbor, Maine, in the name of the Portland, Saco & Portsmouth Railroad. For some unexplained reason Lothrop refused an offer of $20,000 from one man and paid $33,000 to another for the same piece of land.[83] This purchase was never presented to the Eastern board for ratification.

New Management and Continuing Difficulty

It is difficult to specify the total amount of loss incurred by the Eastern during Lothrop's presidency of February, 1872–February, 1874, and impossible to state the extent to which he was personally responsible for the unfortunate decisions. Nevertheless, it was later claimed that much of the road's difficulty came from transactions made during that period, and the available evidence suggests that Lothrop promoted or at least agreed to those decisions.

Three assistants were added to the staff soon after Lothrop became the chief executive. Charles F. Hatch, a former superintendent of the Lake Shore & Michigan Southern Railroad, was designated general manager, outranking the superintendent as the official in charge of the operating department. John Colgate, also from the West, was installed as auditor, taking over many of the duties of the treasurer, who continued, however, to have full custody of the cash, stock, bond, and note accounts.[84] John Sanborn served in an unofficial capacity, apparently as a lobbyist. The directors, with the possible exception of Hooper, were not consulted when

[80] Directors' Minutes of Boston & Maine R. R., April 1, 1871; Directors' Minutes of Eastern R. R., July 25, 1872.

[81] "Corporate History of Boston & Maine System," p. 68.

[82] Annual Report of Eastern R. R., 1875, p. 12.

[83] Ezra H. Dodge, in *Eastern R. R. Investigation, 1876*, pp. 358–63, 409.

[84] Annual Report of Eastern R. R., 1875, pp. 41–42.

Lothrop retained Sanborn.[85] Of the $125,000 paid for unknown services during the two years of Lothrop's administration, at least $77,000 of this went to Sanborn.[86]

Lothrop resigned as president, for reasons of ill health, in February, 1874, leaving the Eastern in a critical financial condition. He and Samuel Hooper selected John Wooldredge, a successful manufacturer and bank president, to become the next chief executive because they thought he could obtain loans to pay the debts and arrange for their eventual liquidation.[87] Hooper, the largest stockholder, had faith in Eastern's future provided a good leader could be procured. He offered to continue his investment in the road if a man like Wooldredge would take the job.[88] Contrary to his personal preference, Wooldredge finally consented to Hooper's request, but only on the understanding that the salary from the Eastern and its affiliates would be $20,000 annually.[89]

One of Wooldredge's first accomplishments was a new agreement with the Boston & Maine to reduce competition. Since the Boston & Maine had opened its extension to Portland about one year before Wooldredge became president, the Eastern had lost between $120,000 and $144,000 from diverted traffic. After several months of negotiations the two roads signed a contract effective May 1, 1874, whereby the list of points of competition recognized in the agreement of 1867 was extended to include Portland. Each road agreed to remit to the other road 20 per cent of the gross revenue at 13 specified stations, a method used in the contract of 1855 but dropped in 1867. As anticipated, the Boston & Maine was obliged to make monthly payments to the Eastern, varying with the amount of business done. These payments offset in part Eastern's loss from diverted traffic and at the same time saved money for the Boston & Maine by reducing competition.[90]

[85] Parker, in *Eastern R. R. Investigation, 1876*, pp. 369–70; Thomas, in *ibid.*, p. 535; Frank Jones, in *ibid.*, p. 399.

[86] Lawrence, in *ibid.*, p. 426.

[87] Shattuck, in *ibid.*, p. 517, and Wooldredge, in *ibid.*, p. 183. Among the largest creditors was Baring Brothers & Company who took £100,000 in bonds in 1873 at 5 per cent interest and 1¼ per cent commission. (Contract dated April 18, 1873, in Eastern contract file, No. 108, B&M Contract Bureau, Boston.)

[88] Wooldredge, in *Eastern R. R. Investigation, 1876*, p. 183.

[89] *Ibid.*; Parker, *op. cit.*, pp. 85–86; Directors' Minutes of Eastern R. R., Oct. 28, 1874. The Eastern Rail-road paid $10,000 and the PS&P R. R. and the PGF&C R. R. each paid $5,000.

[90] Annual Report of Boston & Maine R. R., 1874, p. 6; Directors' Minutes of Eastern R. R., April 17, 1874; original contract in Eastern contract file, No. 132, in B&M Contract Bureau, Boston.

The financial condition of the Eastern was becoming very serious even though in his first annual report to the stockholders, covering the period ending November 30, 1874, Wooldredge implied that the situation was improving. He declared that only 64¾ per cent of the revenues had been used for operating expenses on the entire system, compared to 75 per cent the previous year. Also, compared to 1873, he showed an increase in receipts and a decrease in expenditures, but the latter, according to the custom of the Eastern, did not include certain large emergency charges.[91] It would have been more enlightening if Wooldredge had shown that from every dollar of revenue there was available for dividends and surplus, after payments for all current expenses and fixed charges, the sum of 18 cents in 1871, 14 cents in 1872, 7.6 cents in 1873, and 6 cents in 1874. This "profit" and the accumulated surplus, largely composed of bookkeeping items and representing no real funds, were grossly inadequate to finance the losses caused by the Revere accident and the fires in Boston, and other abnormal expenditures not reported as operating expenses. The critical fact was that while the Eastern was increasing its debt at a tremendous rate, the assets were shown on the books at twice their actual value. Of course, all roads by 1875 had some property whose replacement-less-depreciation value was less than the original cost, because of the drop in prices. The Eastern was different from the Boston & Maine, the Boston & Lowell, and the Fitchburg, however, in the large accumulation of assets with an excessive inflated book value, acquired from the several adventures with branches and terminals.[92]

Wooldredge attempted to save the Eastern by re-establishing financial credit, by covering up the true situation, by working things out somehow, without turning to an inward reform of administration. He borrowed huge sums to pay new debts and renew the old. Within two months after his election as president, he persuaded the Baring Brothers & Company of London to accept £400,000 bonds (about $2,000,000) in addition to the £100,000 bonds of the previous year, but only by an increase of the interest rate from 5 to 6 per cent and an increase of brokerage and commission charges from 1¼ to approximately 4 per cent. In Boston, Richardson, Hill & Company

[91] Annual Report of Eastern R. R., 1873, p. 5; 1874, pp. 4–5; 1875, pp. 37–38.

[92] The "cost of road and equipment" and "other property" accounts were written down 49 per cent in 1876. *Ibid.*, 1875, p. 56; *ibid.*, 1876, pp. 12, 13. See the itemized list of losses in Annual Report of Eastern R. R., 1875, pp. 44–45. Nearly $5,000,000 of that list of "losses" were declared by the new management to be an excess above the current value of certain assets.

agreed to underwrite a loan for $2,000,000 at 85, payable in 1884 at 7 per cent.[93]

The debt continued to rise. On September 30, 1873, just before Wooldredge became president, it was $9,733,494. One year later, it was $12,325,253 and by September, 1875, it reached $14,833,500. Nevertheless, Wooldredge did improve Eastern's financial reputation in the money market to the extent that in the summer of 1875 he was able to refuse to borrow money at 7 per cent and obtain it at 5 per cent.[94]

Internal Efforts to Reorganize

Wooldredge attempted to strengthen the board of directors with the addition of John Cummings, president of the Shoe & Leather Bank of Boston.[95] Apparently, Wooldredge thought it would be easier to borrow money with another bank president on the board in addition to himself and Franklin Haven of the Merchants National Bank of Boston. Cummings was a practical businessman and wanted to put Eastern on a good operating basis. He believed that the directors should be well informed about the business of the company, and was disturbed to learn that most of them, such as Haven, who was a member of Eastern's finance committee and had been on the board since 1859, did not know much about the railroad. It seemed to Cummings that every director should be cognizant of both the financial and operational conditions of the road.[96]

Cummings attempted to live up to his contentions when he became a member of the board in February, 1875, but was thwarted at every turn. He requested permission to examine the company's books, but was put off for a while because the method of bookkeeping was being changed from the complex system introduced by John Colgate in 1872 to a simpler method formerly used. At Cummings' suggestion a man was sent to the Maine Central to examine that road. The report was very enlightening, but Cummings' request that the same thing be done for the Eastern met with general opposition from the other directors.[97]

[93] Contract of April 8, 1874, in Eastern contract file, No. 107, in B&M Contract Bureau, Boston. Cf. fn. 87. Directors' Minutes of Eastern R. R., March 30, Nov. 8, 1872; March 31, April 24, 1873; Feb. 20, 1874; Stockholders' Minutes of Eastern R. R., Feb. 3, 1873; Feb. 1, 1875; Act of Mass., March 23, 1874, c. 80. (Copy in *B&M . . . [Statutes]* III, 266.)

[94] Wooldredge, *op. cit.*, p. 186.

[95] Cummings, in *Eastern R. R. Investigation, 1876*, p. 221.

[96] *Ibid.*, p. 230.

[97] *Ibid.*, pp. 221, 226.

Cummings advocated closer relations between the Eastern and Boston & Maine and officially represented the Eastern in a series of conferences with George C. Lord of the Boston & Maine. They worked out a basis for a contract whereby the two roads would divide the business east of Portland and west of Boston as well as certain business between Boston and Portland, provided the agreement was adopted within ten days. The Boston & Maine board agreed to the arrangement. President Wooldredge and General Manager Hatch, opposing the proposal, did not call a meeting of the board to consider it until the time limit had nearly expired. A number of the directors recognized the proposal as an opportunity to reconcile differences between the two roads, but they needed a few days to study the plan. This postponement automatically killed the proposal because of the ten-day limit. Cummings, believing it to be a personal affront, was so enraged that "he turned his chair round, and put the back of his chair to the board," and delivered a "soliloquy." He felt so strongly on the subject that immediately after the meeting he sold his 450 shares of Eastern stock and some \$80,000–\$90,000 of bonds, retaining only 10 shares of stock. If there was to be continuous rivalry between the two roads there was no money in such an investment. To him, it seemed that the Eastern directors wanted to fight the Boston & Maine to the finish, and he recalled that one of the B&M men had said that it was to be a war "and we are going to use a knife." Cummings even considered resigning from the board but Haven persuaded him to remain and make another attempt at reconciliation. The joint committee of Cummings and Lord was enlarged to include three men from each road, but they never were able to reach an agreement.[98]

Failing in his attempt to reduce competition with the Boston & Maine, Cummings pressed for an inside investigation of the Eastern Rail-road by a committee of three directors with himself as chairman. The other directors agreed on July 28, fearing that if they refused, Cummings would spread that word around and thus ruin the sensitive credit of the corporation. Rumors of the investigation were soon abroad, however, and the value of Eastern stock began to fall on the market.[99] The directors increased the amount of time

[98] *Ibid.*, pp. 224, 486, 487; Lawrence in *Eastern R. R. Investigation, 1876*, pp. 442–43; Directors' Minutes of Eastern R. R., May 10, 26, 1875; Directors' Minutes of Boston & Maine R. R., Jan. 20, May 6, Sept. 23, 1875. A copy of the memorandum of the 1875 contract is contained in Directors' Minutes of Boston & Maine R. R., May 6, 1875.

[99] Directors' Minutes of Eastern R. R., July 28, 1875; Wooldredge, in *Eastern R. R. Investigation, 1876*, pp. 188, 191.

they devoted to the railroad, meeting weekly, then twice a week, for the next six months to consider the many problems of the company. Cummings, Lawrence, and Williams spent much time investigating and in their first report on September 22, 1875, showed that the anticipated net income of the year would be insufficient to meet the annual rentals and interest by the sum of about $400,000.[100]

Cummings presented progress reports and recommendations to the board, instigating a number of changes which constituted the so-called economies of Wooldredge's administration. Thus, the duties of the general ticket agent were changed to provide a better check on the ticket sellers, the payroll was revised and certain jobs combined to effect economy, the downtown ticket office in Boston was closed, and the board further voted to discontinue rebates in freight payments and to reduce the number of free passes.[101] It is to be noted that these reforms came only after prodding by the Cummings' committee. Wooldredge did not co-operate to the satisfaction of Cummings, who, according to Lawrence, displayed a definite personal dislike for Wooldredge.[102]

The Day of Reckoning

During the 20 months of his presidency, Wooldredge gave his attention to the extension of Eastern's credit and the acquisition of new loans. He personally endorsed notes totaling between $400,000 and $500,000 and was able to obtain loans for as little as 5 per cent by the summer of 1875.[103] He was not proficient as a manager in the operation of the road, however. Wooldredge continued the system, developed by Lothrop, of operating semisecretly with a minority group of the board, essentially Samuel Hooper (until his death in February, 1875), Lothrop, and sometimes Frank Jones. If it had not been for this element of secrecy, Lothrop, when president, probably could not have made the vast purchases of Maine Central stock and the Bar Harbor property, nor paid the huge sum for unknown services.[104] President Wooldredge, likewise, would have been

[100] Annual Report of Eastern R. R., 1875, p. 47.

[101] Cummings, in *Eastern R. R. Investigation, 1876*, pp. 227, 489; Williams, in *ibid.*, p. 356. Russell, in *ibid.*, pp. 354–55; Directors' Minutes of Eastern R. R., Sept. 10, 30, Oct. 4, 1875. On Dec. 16, 1875, the Eastern board voted to limit passes to employees only. The Boston & Lowell, Nashua & Lowell, and Fitchburg railroads took the same action about that time.

[102] Cummings and Lawrence, in *Eastern R. R. Investigation, 1876*, pp. 249, 444.

[103] Parker, in *ibid.*, p. 91.

[104] Haven charged that the minutes of the directors were inaccurately re-

unable to smooth things over and increase the indebtedness of the company. There was loose management consisting of a few directors who managed the company, ignoring methods of more economical operation and withholding information of the true situation from the other members of the board, lest they should talk and spoil the sensitive credit of the company.

By October, 1875, the situation was appalling. Temporary loans amounting to some $1,700,000 had to be met. Debts for ordinary operating expenses totaled more than $350,000. The daily net revenue of the entire Eastern system was less than $2,033, whereas charges for rents and interest averaged $3,072 per day.[105] Rumors were frequent and some of them unfounded, such as those hinting of embezzlements and an overissue of bonds.[106] The crisis came in the board meeting of October 16, when, in the midst of a heated discussion, Cummings demanded Wooldredge's resignation. Haven, also dissatisfied with Wooldredge, likewise advised him to step down from the presidency. Although Wooldredge promptly tendered his resignation the board did not accept it until two meetings later. They also accepted the resignation of Nathaniel Hooper, who had been on the board since the death of his uncle, Samuel Hooper, earlier in the year. Cummings' proffered resignation was not accepted.[107]

Samuel Lawrence became president on October 27 and during

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corded. The minutes state that on May 10, 1875, the board approved the previous action of the finance committee in purchasing the Maine Central stock. In a heated meeting during the following October, Haven declared that that vote had never been taken. He wrote a letter to the board denying that such a vote was ever taken on May 10, and repeated the same statement under oath the next spring. The State Railway Commission in its annual report said that the finance committee, including Haven, had purchased the stock. Haven wrote two letters to the Commission denying that the committee had ever purchased, or authorized the purchase, of Maine Central stock. (Haven, in *Eastern R. R. Investigation, 1876*, pp. 135–37, 447–49, 463, 464.)

Haven testified (*ibid.*, p. 446) that in February, 1875, he suggested the board should have an executive committee but Wooldredge objected.

Lothrop used Eastern's money to buy a hotel and wharf at Bar Harbor, Maine, in the name of the Portland, Saco & Portsmouth R. R. in 1873. He did not have the authorization of the Eastern board of directors for the purchase of the property which was offered at $20,000 by Ezra H. Dodge, but for which he paid another agent, Deering, $33,000. The apparent purpose of the acquisition was to feed boat traffic to the PS&P and Eastern rail line between Portland and Boston. (Ezra H. Dodge, in *Eastern R. R. Investigation, 1876*, pp. 358–62.)

[105] Annual Report of Eastern R. R., 1875, pp. 4, 48.

[106] *Ibid.*, p. 48; Lawrence, in *Eastern R. R. Investigation, 1876*, p. 315.

[107] Directors' Minutes of Eastern R. R., Oct. 16, 27, 1875.

the remainder of the calendar year of 1875 the directors increased their efforts to save the company from bankruptcy by three major approaches. Economies, at the suggestion of Cummings' committee, were effected by abolishing the engineering department, making consolidations in the shops, discharging the superintendent of lands and his assistant, and selling two old engines. Credit was obtained for a demand loan by using a block of the Maine Central stock as security and President Lawrence made a personal loan to the railroad. The third approach was the postponement of payment of various financial obligations. The payroll was deferred one week and several banks extended credit on maturing loans. Smaller creditors were persuaded to wait for their money.[108]

In spite of these efforts and the addition to the board of James P. Cook of Salem because of his financial influence, a number of stockholders petitioned the directors to call a special meeting. The directors refused because they felt that they had the situation well in hand and the annual meeting was scheduled for February 7, only five weeks away.[109]

The creditors, especially the smaller ones, met on January 15, and with "almost unexampled forbearance," appointed a committee to work out a plan with the directors to save the road. Cummings, Bates, and Cook represented the directors and perfected an arrangement short of bankruptcy by which all of the debt would be refunded with 30-year bonds paying 3½ per cent the first three years, 4½ per cent the next three years, and 6 per cent the balance of the period. The new bondholders were promised control of the company by means of electing six of the nine directors. All net earnings, except for certain specified obligations to enumerated subsidiaries, were required to be paid to the trustees of the bondholders and deposited by them in a special fund.[110]

Although the stockholders adopted the voluntary creditors' agreement there was enough discontent to elect a committee to investigate the company. Seth Thomas was appointed chairman but the other committee members would not serve. Getting nowhere, he turned to the legislature, which already was planning its own investigation. The result was that Thomas affiliated his efforts with

[108] *Ibid.*, Oct. 27, Dec. 30, 1875.

[109] *Ibid.*, Dec. 30, 1875.

[110] Annual Report of Eastern R. R., 1875, pp. 61–82; *ibid.*, 1876, p. 4. Stockholders' Minutes of Eastern R. R., Feb. 7, 1876; Directors' Minutes of Eastern R. R., Jan. 19, 1876.

the legislative committee that held an investigation during March, 1876.[111]

The committee of the legislature concluded that the management of the Eastern had been "exceedingly loose" under Lothrop, and "was distinguished by a recklessness in expenditure, and a lack of system in accounts, which call for severe censure."[112] In regard to the purchase of the Maine Central stock, the committee would not say that the purchase was illegal, but it did declare that "the manner of making it cannot be too severely condemned."[113] The Lynn depot affair, the Bar Harbor property purchase, and the payments to Sanborn and others for unstated purposes, all were condemned. The committee stated, however, that there was no evidence that the officers of the road made any personal profit or gain of any kind from the transactions.[114] After the purchase of the Maine Central stock and before the legislative committee hearing, a law had been passed prohibiting purchases in such fashion. The only legislation recommended by the committee was an amendment to the law that restricted a railroad from issuing more bonds than its paid-in capital stock. Actually the recommendation was ineffective because it placed no restriction on "coupon notes" and other certificates of indebtedness.[115]

The Eastern after 1875

The reorganization of the Eastern was effectuated in August, 1876. Stockholders selected three directors and the new bondholders elected the other six, including A. P. Rockwell who was chosen president.[116] Except for Samuel Lawrence and Frank Jones who had been on the board one and one-half and three and one-half years, respectively, the membership of the board was entirely new. A number of immediate changes were enacted. The president was made personally responsible for the operation of the road with each activity allocated to one of six departments.[117] Likewise, many items, previously handled by other officials, now required the action of the directors.

[111] Published as *The Eastern Railroad Investigation, 1876.*
[112] Committee report, p. 4, in *Eastern R. R. Investigation, 1876.*
[113] *Ibid.*
[114] *Ibid.*, p. 5.
[115] *Ibid.*, p. 2.
[116] Stockholders' Minutes of Eastern R. R., Aug. 22, 1876.
[117] Directors' Minutes of Eastern R. R., Aug. 29, 1876; Feb. 19, April 22, 1877; April 22, 1879.

The board turned its attention to the Boston & Maine and soon arranged a new contract to extend the provisions of the agreement of 1874 that had eliminated most of the competition between Boston and Portland. The contract of May 29, 1877, included the territory east of Portland and provided that each road would remit 25 per cent of the gross receipts collected at competing points, rather than the 20 per cent formerly required. In addition, the Boston & Maine was guaranteed the same advantages in relation to the Maine Central as those enjoyed by the Eastern, except that Eastern continued to use its cars on the Boston-Bangor express. Both roads terminated agreements with the Grand Trunk, and the Boston & Maine withdrew from the through-freight lines.[118]

Eastern's business, adversely affected both by the general depression and the unfavorable turn of its finances, began to improve in late 1877. The completion of the Portland & Ogdensburg Railroad to Lake Champlain in August of that year opened an avenue especially for freight that had been anticipated for a number of years. In the same season the change of gauge of the European & North American Railroad permitted freight cars to go all the way to St. John, New Brunswick.[119]

By late 1878 all court cases contesting the financial reorganization of 1876 were concluded and the Eastern was solvent. The net loss after the payment of fixed charges during 1875, 1876, and 1877, was replaced with a small net income in 1878 and each succeeding year thereafter. All dividend payments were passed.[120] There was a consistent and successful effort to prevent the debt from increasing; in fact, it was reduced slightly. All expenses for both maintenance and improvements of the road were charged to operating expenses. The road and equipment were thus kept in good order and in some respects were better than in 1875. Some of the new freight cars were leased, however, which reduced expenditures.[121]

The future of the Eastern was uncertain because of the rivalry of the Boston & Maine. The series of agreements between the two roads since 1843 generally had kept competition to a minimum; the extension of the Boston & Maine tracks into Portland was the only major failure of the roads to eliminate serious competition. It was

[118] Contract dated May 29, effective June 1, 1877, in Eastern contract file No. 132, in B&M Contract Bureau, Boston.

[119] Annual Report of Eastern R. R., 1877, pp. 8, 9, 15.

[120] Computed from Mass. R. R. Returns, 1875–78.

[121] Annual Report of Eastern R. R., 1877, p. 13; Directors' Minutes of Eastern R. R., May 24, 1881.

obvious to some financiers that a union of the two roads would improve their financial stability. When it was evident the Eastern was solvent again and thus a likely partner for some sort of a union, discussion progressed so far that by 1880 representatives of the Eastern proposed leasing the Boston & Maine. At that time the Eastern was operating 283 miles and the Boston & Maine only 200 miles of road, although Boston & Maine's gross railway operating revenue of $2,532,653 was almost as large as Eastern's $2,905,056. The Boston & Maine directors declined Eastern's proposal and there the matter appears to have rested for two years.[122]

By 1881 the two roads began to argue about the provisions of the 1877 contract limiting competition which provided that neither road was to extend its sphere of influence without the consent of the other road. When the Eastern protested Boston & Maine's proposed extension of the Dover & Winnipiseogee, the Boston & Maine replied with a protest against Eastern's effort to effect a junction with a branch line, the Old Orchard Railroad, in the face of Boston & Maine's disapproval.[123]

The following spring the Eastern board proposed a change in the formula dividing the receipts of business at competing points so that the road doing the business would retain a larger percentage of the revenue. When the Boston & Maine declined to make any change in the 1877 contract, the two boards after frequent exchanges of proposals extended the old contract while the Boston & Maine negotiated for a lease of the Eastern.[124]

The Eastern directors voted on June 27, 1882, to lease their road to the Boston & Maine. Negotiations between the two boards occupied several months and not until the following March 28 did the proposal come before the stockholders of the two roads, who immediately authorized their boards to sign the agreement.[125] At that point certain stockholders of the Maine Central asked to have their road included so that the three roads would be united. The Boston & Maine directors were willing to discuss the subject but the Eastern

[122] Directors' Minutes of Boston & Maine R. R., June 16, 1880.

[123] Directors' Minutes of Eastern R. R., June 28, 1881; Directors' Minutes of Boston & Maine R. R., July 27, 1881.

[124] Directors' Minutes of Eastern R. R., March 28, May 23, Dec. 1, 1882; March 13, Nov. 6, 1883; April 22, 1884; Directors' Minutes of Boston & Maine R. R., March 22, April 10, 26, May 24, June 28, Sept. 27, Oct. 11, 25, Dec. 13, 1882; April 23, Oct. 22, 1884.

[125] Directors' Minutes of Eastern R. R., June 27, 1882; March 7, 13, 1883; Directors' Minutes of Boston & Maine R. R., Dec. 1, 27, 1882; March 7, 27, 1883; Stockholders' Minutes of Eastern R. R., March 28, 1883; Stockholders' Minutes of Boston & Maine R. R., March 28, 1883.

board split, with the majority eager to effect a lease to the Boston & Maine without the inclusion of the Maine Central. The wording of the agreement delayed final approval of a new draft by the Eastern and the Boston & Maine stockholders until December 2, 1884.[126]

The 54-year lease guaranteed the Eastern a small share of the surplus but only after the Boston & Maine stockholders had received 9 per cent dividends. The Eastern bondholders, however, were protected by the high earning power of the Boston & Maine.[127] The Boston & Maine was able to continue its current payments of 8 per cent on its common stock for several years and increase them in 1886 to 9 per cent. In 1887 business on the combined roads was very good; the Boston & Maine stockholders received 10 per cent and the Eastern stockholders were paid 6 per cent. Although the Boston & Maine stock returned only 9 per cent the next two years, the Eastern common stock continued to pay 6 per cent until the two companies were merged in 1890.[128]

The consolidation of the two roads was discussed earnestly in 1887 and figured in the debates of the Hazen and Atherton bills before the New Hampshire legislature, which was considering a revision of the statute on consolidation of railroads. The two roads negotiated for some time and finally agreed on the terms of the sale in 1890. The preferred stock of the Eastern was exchanged par for par for a first preferred 6 per cent Boston & Maine stock, noncumulative.[129] Each share of Eastern common stock and each share of the Portsmouth, Great Falls & Conway stock was exchanged for .8328 of a share of Boston & Maine common stock. At the same time, there was a stock split for the old B&M shareholders at the rate of one additional share for each 6 4/5 shares.[130]

Thus closed the history of the Eastern Rail-road Company, for years the largest and certainly one of the most colorful of the 48 operating roads that eventually made up the modern Boston & Maine.

[126] Directors' Minutes of Eastern R. R., Sept. 4, Nov. 19, 1884; Directors' Minutes of Boston & Maine R. R., Sept. 26, Oct. 24, 1883; Nov. 13, 19, 1884; Stockholders' Minutes of Eastern R. R., Dec. 2, 1884; Stockholders' Minutes of Boston & Maine R. R., Dec. 2, 1884.

[127] Copy of lease in Annual Report of Eastern R. R., 1884, pp. 44–52.

[128] Tables in Bradlee, *Eastern Railroad* . . . , p. 102, and Bradlee, *Boston and Maine Railroad* . . . , p. 78.

[129] $3,150,000 preferred stock was issued in 1886 in exchange for a like amount of certificates of indebtedness. Directors' Minutes of Eastern R. R., Nov. 6, 1886.

[130] Copy of consolidation agreement in *Forty-Sixth Annual Report of the Railroad Commissioners of the State of New Hampshire* (1890), pp. 413–14.

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Rochester's Flour-Milling Industry in Pre-Canal Days

The early development of Rochester as a flour-milling center demonstrates several themes. Here, as in countless other places, the resiliency of the petty capitalist in the face of natural disasters and violent commodity price swings stands clear. But the early millers, flexible and energetic in entrepreneurial activity, were also, like their product, perishable. The broader and more important pattern is that of the persistence of an industry favored by basic geographic and market circumstances. Individual mills succumbed in rapid sequence, but rapidly they were replaced. Surviving the handicap of limited capital, the milling industry burst its local bonds and exploited the regional potentialities of water access to Canada. Transition to what then amounted to a national market came in 1823, when the Erie Canal linked Rochester with the Hudson. Thus a new epoch was forecast, when a broadened market would not only stimulate local growth but shape it through complex economic influences hitherto little felt by the millers on the Genesee.

Thomas Jefferson, in 1786, wrote to the French social reformer and revolutionary, Jacques Pierre Brissot de Warville: "There is no neighborhood in any part of the United States without a water-grist mill for grinding the corn of the neighborhood."[1] Such was the dispersion of the flour-milling industry at the opening of the national period. In a country in which the area of settlement was expanding and scattered communities were kept widely separated by poor transportation, it was natural for a multiplicity of flour mills to arise. Any sizable stream located within easy reach of a wheat-producing region was a potential mill site; and the small amount of capital needed to build and equip a frontier mill encouraged the establishment of separate enterprises at each waterfall or rapid.

[1] Letter of Aug. 15, 1786, in Andrew A. Lipscomb and Albert Ellery Bergh, eds., *The Writings of Thomas Jefferson* (20 vols.; Washington, 1903–1905), V, 403. Charles Byron Kuhlmann uses this quotation as an illustration in *The Development of the Flour-Milling Industry in the United States* (Boston, 1929), p. 33.

Despite the wide distribution of mills, a tendency towards concentration had already appeared. Flour production had early become centered in places where a wheat supply and natural power accompanied a readily accessible market. Prior to 1750 New York City was the principal of these flour centers. But by the end of the colonial period milling operations had virtually ceased within the city, and while New York remained noted for its flour, the primary position in the flour trade was passing to Philadelphia. Numerous mills, located on the Brandywine, the Wissahickon, and neighboring tributary streams of the Delaware and Schuylkill, kept Philadelphia in abundant supply; by 1773 more than 280,000 barrels of flour were exported abroad down the Delaware River.[2]

The prominence of New York and Philadelphia as flour centers depended primarily upon their ability to market rather than to produce. In the case of Baltimore, which by the end of the Revolution had come to rival the older flour ports, a vigorous milling industry within the city limits developed alongside a thriving back country business. By 1810 Baltimore and its environs could boast some 65 mills producing 39,000 barrels of flour for export.[3]

About the time that Baltimore was coming into its own as a flour center, the area around the lower Genesee River in western New York, later destined to achieve fame for its flour products, was essentially virgin country. Settlement in western New York had proceeded slowly after the Revolution, and as late as 1790 there were but three distinguishable communities between Seneca Lake and the Genesee River.[4] The chief obstacle impeding settlement of the Genesee lands had been removed in 1786, when New York and Massachusetts compromised their claims to the region west of Seneca Lake. The way was then cleared for an influential group of New England speculators, headed by Oliver Phelps and Nathaniel Gorham, to purchase the entire tract of 6,000,000 acres in May of 1788.[5] The Indians who occupied the territory were reluctant to part with so much land, and the speculators had to be content with a cession of only

[2] Kuhlmann, *Flour-Milling Industry*, pp. 9–19; J. Leander Bishop, *A History of American Manufactures from 1608 to 1860* (3 vols.; Philadelphia, 1866), I, 144.

[3] *American State Papers: Documents, Legislative and Executive of the Congress of the United States* (10 series; Washington, 1832–1834), Series III, *Finance*, Vol. II, p. 770.

[4] E. B. O'Callaghan, ed., *The Documentary History of the State of New York* (4 Vols.; Albany, 1849–1851) II, 1114.

[5] Neil Adams McNall, *An Agricultural History of the Genesee Valley* (Philadelphia, 1952), p. 13.

2,600,000 acres. Phelps promised to build a gristmill, for use by both Indian and white man, and, in return, he was granted an additional tract of 200,000 acres west of the river.[6] Shortly afterward he contracted with Ebenezer "Indian" Allan, a well-known frontiersman, to erect a gristmill and a sawmill, conferring upon him a hundred-acre lot at the west side of the upper Genesee falls.[7]

The story of the development of the Hundred-Acre Tract into the city of Rochester is familiar to students of Rochester history. The fact that the origins of the city are to be found in this pioneer milling venture is no mere coincidence. The site chosen for the frontier mill was, at the beginning of the nineteenth century, well suited to the growth of a flour-milling town. Located near the mouth of the Genesee, the Tract was within easy reach of the fertile prairie that bordered the river. And the river, at that point, underwent a series of rapids and falls that rendered it an excellent source of water power. Within a distance of several miles the waters of the Genesee passed over three successive cascades, descended some 260 feet, and discharged at a rate of 2,655 cubic feet per second at the lowermost fall.[8]

After the spring planting of 1789 Allan arrived at the falls of the Genesee, dug a crude raceway, and by the spring of 1790 Allan's Mill, a roughly hewn structure no larger than 26 by 30 feet, was in operation.[9] If the proprietor had any expectation of a promising business, it was soon dispelled, since a very limited clientele was capable of being attracted from the sparsely settled area. The expected onrush of settlers to the lower Genesee area failed to materialize; wheat production in western New York was as yet negligible, and when Allan began milling, his closest customers were beyond two hours' traveling distance. The Indians, at whose insistence the project had been begun, rarely patronized the gristmill. After little more than a year's time, Allan abandoned the mill site.[10]

[6] Blake McKelvey, "Historic Aspects of the Phelps and Gorham Treaty of July 4–8, 1788," *Rochester History*, Vol. I, No. 1 (Jan., 1939), pp. 6–7, 17–19; O[rsamus] Turner, *History of the Pioneer Settlement of Phelps and Gorham's Purchase, and Morris' Reserve* (Rochester, 1851), p. 140.

[7] Blake McKelvey, *Rochester: The Water-Power City, 1812–1854* (Cambridge, Massachusetts, 1945), p. 19.

[8] *Ibid.*, p. 13 fn.; [George W. Fisher, ed.], *Early History of Rochester, 1810–1827* (1860?), p. 2; and Henry O'Reilly, *Settlement in the West: Sketches of Rochester with Incidental Notices of Western New York* (Rochester, 1838), p. 89.

[9] Blake McKelvey, "Indian Allan's Mills," *Rochester History*, Vol. I, No. 4 (Oct., 1939), p. 3; Turner, *Phelps and Gorham's Purchase*, pp. 404–5.

[10] McKelvey, *Water-Power City*, p. 23.

In March, 1792, the mill and mill site were sold to Benjamin Barton, a close associate of the Philadelphia merchant, Robert Morris, and two years later to Charles Williamson, agent for the William Pulteney estate in England. Williamson managed the property until 1803 when, after a few half-hearted attempts to repair the mill, he sold it to the trio of Charles Carroll, William Fitzhugh, and Nathaniel Rochester. The new owners had not long taken title before the mill was finally destroyed, either towards the end of 1806 or in the early part of 1807.[11]

The Allan Mill was scarcely a significant beginning for Rochester's flour industry. The crudeness of its construction, the indifference with which it was managed, and lack of surrounding agricultural development combined to characterize the mill as an abortive attempt rather than a promising nascence. Yet Allan was the first to utilize the power of the Genesee falls for milling purposes, and, although the venture did not meet even his own expectations, his mill drew attention to the possibilities of flouring operations at the falls.

Shortly after the Allan Mill was destroyed, a second gristmill appeared above the main falls on the west bank of the river. Erected by an Englishman, Charles Harford, the mill was only slightly more elaborate than Allan's structure. Harford pursued operations for but a short time, and in 1810 Matthew and Francis Brown, of Rome, and Thomas Mumford, of Cayuga Bridge, purchased the land and mills.[12]

Although the appearance of the first mills seemed to indicate a growing realization of the extensive water privileges at the Genesee Falls, there was no reason to believe, in the early years of the nineteenth century, that a thriving flour-milling industry would develop there. In fact, the lower Genesee gave small promise at this time of becoming the key economic center of the Genesee country. Settlement near the falls clearly lagged behind that of the surrounding communities, and the major trade routes for the area, prior to 1808, avoided the falls.[13]

[11] William F. Peck, *Semi-Centennial History of the City of Rochester* (Syracuse, 1884), p. 85; McKelvey, "Indian Allan's Mills," p. 7; Turner, *Phelps and Gorham's Purchase*, p. 267; and Howard L. Osgood, "Rochester; Its Founders and its Founding," Rochester Historical Society, *Publications*, I (1922), 58–61.

[12] McKelvey, *Water-Power City*, p. 34; Turner, *Phelps and Gorham's Purchase*, p. 584; and Maude Motley, "The Romance of Milling: With Rochester the Flour City," Rochester Historical Society, *Publications*, X (1931), 166.

[13] *Census of the State of New York for 1855* (Albany, 1857), p. xxiii.

The mouth of the Genesee, it is true, had early afforded a convenient harbor for vessels engaged in commerce on the lakes. But the lake trade progressed slowly, and not until 1805 was a port of entry for the Genesee established and a collector of customs sent to the village of Charlotte.[14] In the year that followed, during a nine-month period of navigation, the chief exports from Charlotte, Port Genesee, consisted of a mere 103 barrels of flour, 70 of pork, 121 of whiskey, and 681 kegs of wine.[15]

The Embargo Act of 1807 served as a stimulant to the dawdling lake traffic. While the foreign commerce of the Atlantic ports was brought to a standstill as a result of its operation, the Embargo was scarcely enforced along the Canadian border. Trade was diverted northward and Lake Ontario became the scene of a vigorous traffic in smuggled goods.[16] Shipments from the Genesee sharply rose, increasing some threefold from 1806 to 1808, and in the brief period, April to June, 1811, more than 7,250 barrels of flour, potash, wheat, and pork left Charlotte for Canada.[17]

The city of Montreal, with a convenient location along the new line of trade, was rapidly becoming the leading market for the produce of the Genesee country. Almost as soon as the embargo was declared, the merchants of Montreal, seeking to profit from their city's unique position, tried to procure the trade of western New York.[18] A sizable carrying business arose to service the new route, and as a result, transportation costs were so reduced that in 1809 a barrel of flour could be brought from the mouth of the

[14] *Rochester Republican*, Feb. 22, 1848.

[15] *Holland Land Company's Papers: Reports of Joseph Ellicott* (2 Vols.; Buffalo Historical Society, *Publications*, Vols. XXXII–XXXIII, Buffalo, 1937 and 1941), II, 82.

[16] Marcus Lee Hansen, *The Mingling of the Canadian and American Peoples* (New Haven, 1940), p. 89.

[17] With the sprouting of illegal trade it is little wonder that Joseph Ellicott, agent for the Holland Land Company, recorded in his Letter Book: "I begin to be of the opinion that non-intercourse and embargo is all Stuff! Stuff! Stuff! Stuff! Stuff!" "Extracts from Jos. Ellicott's Letter Book and Early Correspondence," Buffalo Historical Society, *Publications*, XXVI (1922), 148. Used by McKelvey as an illustration in *Water-Power City*, p. 33 fn. See also *Reports of Joseph Ellicott*, II, 82.

[18] Ellicott attributed the beneficent effects of the embargo on western New York to the fact that ". . . the Merchants in Montreal, in Consequence of all Exportation of Flour and Produce from the Atlantic Cities and Towns in the United States being embargoed and the Port of Montreal in Canada being the only Place from where Produce could be shipped to the Mother Country and the British Colonies, . . . turned their Attention to the Purchase of Produce, Provisions, Potash and every Description of Lumber." *Reports of Joseph Ellicott*, II, 79.

Genesee to Montreal for $1.00 and a barrel of potash for $1.50.[19] Although the trade that ensued failed to reach substantial proportions before 1816, and, in fact, was suspended entirely during the War of 1812, those who made use of the Montreal market evidently found it lucrative.[20]

The existence at Montreal of an outlet for surplus produce within practicable reach did much to encourage the expansion of milling at the falls. Granting that the production of flour for a distant market was not a primary aim until well after the War of 1812, the availability of such a market served as a standing inducement to millers to grind additional flour for export. It is true that sufficient grain was not always available, as early settlers in the Genesee Valley tended to avoid the open flats that were so suitable to wheat growing. But by 1810 an impending increase in wheat production was foreseen: [21]

> . . . For these some Years past if Mills . . . had been erected . . . Grain could not have been procured to manufacture. . . . A Year or two hence this will not be the Case, because many Parts of this Land are now as thickly populated as is necessary or advantageous for the Farmers to be settled.

As the shift from subsistence to commercial agriculture in the Genesee Valley after 1810 provided millers with an abundance of wheat, most of the conditions requisite for an augmented flour industry were present.[22]

Milling activity was renewed at the falls shortly before the outbreak of hostilities in 1812, and it continued throughout the war despite a constant threat of invasion. In the spring of 1812 Francis Brown removed from Rome to the site of his recently acquired mill in order to begin improvements. Within a year the old Harford Mill was repaired, "filled with machinery from top to bottom," and enlarged to a grinding capacity of 200 bushels of wheat a day.[23]

[19] McKelvey, *Water-Power City*, p. 35 fn.

[20] James Wadsworth of Geneseo found in 1807 that wheat in Montreal "commands cash, and a much higher price than in this state, from the fact of facility of transportation," and Joseph Ellicott in 1810 praised the Canadian city as "a better market than New York." James Wadsworth to John Murray and Sons, June, 1807, quoted in part in Turner, *Phelps and Gorham's Purchase*, p. 581; *Reports of Joseph Ellicott*, II, 85.

[21] *Reports of Joseph Ellicott*, II, 38.

[22] Before the Erie Canal was built wheat, although extensively grown, attained but a minor significance as a commercial crop *per se*. Wheat ground into flour, however, was in demand and could usually be sold at a profit. Thus, the flour-milling establishments of the area were of almost equal importance to both farmers and millers.

[23] Turner, *Phelps and Gorham's Purchase*, p. 593; Hamlet Scrantom to his

At this time another flouring establishment was getting under way. Josiah Bissel and the brothers Hervey and Elisha Ely undertook repairs on Allan's long-neglected raceway and soon leased from William Fitzhugh and Charles Carroll permission to erect a gristmill on the Hundred-Acre Tract above the upper falls.[24] By January, 1815, the mill was in operation for custom work, with the expectation that it would presently "be ready for flouring on an extensive scale." The new mill contained four sets of stones, screening and smut machines for separating and cleaning the grain, and other machinery necessary for producing Superfine flour.[25] A dull red coat of paint gave rise to the name of the Red Mill.

Both the Red Mill and the remodeled establishment of Francis Brown were, from the outset, dynamic in character. Unlike their predecessors, Allan and Harford, the newly arrived millers viewed their enterprises as no mere parochial ventures. Custom milling, to be sure, initially provided the greater part of the business; yet the ambitious entrepreneurs constantly sought to broaden their activities as merchant millers.[26] Attempts to do so in the years from 1812 to 1815 met with difficulties as the promising Canadian market was entirely cut off, and Lake Ontario became a theater of military rather than commercial operations.

A substitute existed at Baltimore, where merchants continued to ship flour to Spain and Portugal for which they willingly offered $10 a barrel; [27] but the Genesee mill owners were unable, without great inconvenience, to avail themselves of this outlet. Nor did they find it feasible to transport the bulky casks of flour by the tedious

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father, Feb. 19, 1814, and June 3, 1815, in "Scrantom Letters on the Beginning of Rochester," Rochester Historical Society, *Publications*, VII (1928), 186, 190.

[24] Elisha Ely to Nathaniel Rochester, June 24, 1814, *Nathaniel Rochester Collection*, Local History Division, Rochester Public Library; Nathaniel Rochester to William Fitzhugh, Rochester, June 18, 1814, quoted in Osgood, "Founders and Founding," pp. 67–68.

[25] *Ontario Repository and Western Advertiser*, Feb. 7, 1815.

[26] Merchant milling was distinguished from custom milling as a more complex form of economic activity. The merchant miller actually purchased the grain of the farmer, ground it, and then had to undergo the vicissitudes of marketing the flour himself. In custom work the farmer, rather than the miller, retained ownership of the product throughout the whole process; the miller merely performed the service of grinding the grain. During the first half of the nineteenth century there was not always a clear-cut distinction between the custom and the merchant miller, since even the larger merchant mills in those days reserved a set of stones or two for custom work. Merchant milling also went under the names of "flouring" and "manufacturing" flour.

[27] William Fitzhugh to Nathaniel Rochester, Oct. 18, 1812, *Nathaniel Rochester Collection*.

and costly overland route to Seneca Lake, then by boat through Lake Oneida to the Hudson River and New York City.[28] A more satisfactory alternative was to sell flour locally, and, accordingly, sizable quantities were disposed of in nearby communities, including those recently established at the falls. Supplemental demands to supply the troops on the Niagara frontier brought needed cash to both millers and wheat growers. Indeed, Nathaniel Rochester was thrice implored by the military to rush all the flour he could spare from his mill at Dansville to the forces at Buffalo.[29]

The need for flour during the war was pressing enough to keep the millstones at the Genesee Falls in continuous operation, and even as the year 1815 opened, it was reported that "business continues to flourish notwithstanding the disadvantages of the war time."[30] Yet the industrial opportunities on the lower Genesee before 1815 remained strictly limited, and no one saw this more clearly than Nathaniel Rochester. In 1813 he had sold his Dansville farm with the intention of moving to the falls to commence milling; but, when the proposal of the Ely brothers to do likewise reached him, he decided to locate at Bloomfield instead.[31]

The coming of peace in 1815 found the American economy ready to enter a new phase of growth. Contrasted with the European industrial contraction which followed the Napoleonic Wars, the young republic across the Atlantic seethed with business activity. The region around the lower Genesee exhibited its own peculiar

[28] Testimony of Jacob Gould in the claim of Gideon W. Burbank, in "Communication from the Canal Appraisers in Relation to the Claims of Jacob Graves and others, mill owners, at Rochester" (New York State, *Assembly Document* No. 63, 77 Sess., 1854), pp. 126–27. The cost of land carriage in 1814 was estimated at $32 a ton for each 100 miles, and a speed of 20 miles a day was considered fast. Robert Fulton to Gouvernour Morris, Feb. 22, 1814, cited in Henry Wayland Hill, *An Historical Review of Waterways and Canal Construction in New York State* (Vol. XII of Buffalo Historical Society, *Publications*, Buffalo, 1908), p. 83; Oliver W. Holmes, "The Turnpike Era," *Conquering the Wilderness* (Vol. V of *History of the State of New York*, Alexander C. Flick, ed., New York, 1934), p. 277.

[29] Augustus Porter to Nathaniel Rochester, Nov. 16 and 26, 1812, and Underhill J. Seymour to Nathaniel Rochester, Dec. 4, 1812, *Nathaniel Rochester Collection*. At first Porter was willing to "pay almost any price (within the bounds of reason)" and he offered $3.50 or $4.00 a barrel. As the need for flour became more urgent $5.00 and then $6.00 was proposed.

[30] Hamlet Scrantom to his father, Jan. 24, 1815, "Scrantom Letters," p. 190.

[31] Writing to William Fitzhugh, Rochester explained: "I did not mention, at the time you made the offer to Mr. Ely that his erecting mills there would prevent me from doing it for some time, as his and Captain Brown's mills will be enough for that place for some time." Nathaniel Rochester to William Fitzhugh, June 18, 1814, quoted in Osgood, "Founders and Founding," p. 7.

vigor. In the spring of 1815 the mill of the Brown brothers operated almost at capacity, grinding up to 150 bushels of wheat a day and requiring three millers working on the same number of shifts to tend it; and that summer the machinery of the Red Mill was so busily engaged in manufacturing Superfine flour that its clatter prevented persons in the vicinity from being heard.[32] Meanwhile, a group of the leading men of the locality, including the mill owners Josiah Bissel, Hervey Ely, and Matthew and Francis Brown organized the Genesee Manufacturing Company which sponsored the building of a large and costly mill canal at the head of the main falls. Brown's Race, partially completed to a length of 74 rods late in 1816 at an expense of nearly $4,000, afforded extensive water privileges to future mill and factory owners.[33]

There also followed in the wake of peace a resumption of trade with Canada. Despite the fact that Great Britain, with the Corn Laws of 1814 and 1815, embarked upon a policy of strong protection for grain, Canadian merchants continued to encourage the flow of American inland products down the St. Lawrence. In 1815, flour shipments from the Genesee amounted to only a few hundred barrels, but as the price of a barrel of flour rose in Montreal to $15 compared with only $8 offered at Rochester, the next year saw between 7,000 and 8,000 barrels cross Lake Ontario from the port of Genesee.[34] By 1817, 60 sailing vessels, in addition to two steamboats, were available to service the lake commerce; in that year 6,169 barrels of flour were sent from Hanford's Landing at the mouth of the Genesee.[35] Afterwards flour exports to Montreal increased sharply, totaling 25,996 barrels in 1818, falling to 23,648 in the depression year, 1819, but climbing to 67,468, or half the total received at Montreal, in 1820.[36]

[32] *Ontario Repository*, Dec. 19, 1815; *Commerce, Manufactures and Resources of Rochester: A Descriptive Review* (Rochester, 1881), p. 9.

[33] When finally finished in 1817, the raceway measured 84 rods in length and was 30 feet wide and 3 feet deep, providing 900 horsepower. [Fisher, ed.], *Early History of Rochester*, p. 6; Edwin Scrantom, "Old Citizen's Letters," Scrapbook, Local History Division, Rochester Public Library, p. 29; William H. Samson, "Studies in Local History," *Rochester Post-Express*, 1907–1908, Scrapbooks, Local History Division, Rochester Public Library, LI, 9.

[34] O'Reilly, *Settlement in the West*, p. 361; *The Merchants' Magazine and Commercial Review*, Vol. XVII, No. 1 (July, 1847), p. 48; Motley, "Romance of Milling," p. 183; *Rochester Republican*, March 7, 1839.

[35] McKelvey, *Water-Power City*, p. 54; "E. Pomeroy's Report on Rochesterville's Flour Product, Dec. 11, 1819," *Nathaniel Rochester Collection*.

[36] Hamlet Scrantom to his father, Jan. 24, 1819, "Scrantom Letters," p. 193;

As the trade in flour gained strength, commercial facilities were improved at the landing below the falls. Local merchants and millers constructed warehouses both for storing grain before grinding and for keeping flour prior to shipment.[37] The warehouse of Elisha B. Strong, set up in 1817 at the town of Carthage on the east bank of the Genesee, was added to those already established across the river at Hanford's Landing; another, completed by Bissel and Ely at the close of 1818, formed part of a larger scheme to consolidate the manufacturing, storing, and forwarding of the farmer's flour. The proprietors proposed to grind the wheat at their mill, and, "*without any trouble to the owner*, deliver the flour in *Montreal*, at a rate cheaper than it can be done by employing half a dozen storers, freighters, etc." [38]

The swelling postwar commerce in flour with Canada, however, withered almost as rapidly as it had sprung up. From the outset trade with Montreal had been subject to adverse conditions, since Canada was a sorely limited market. Flour sent to Montreal in large quantities could not always be disposed of within a reasonable period, and accumulations of the unsold product tended to force prices downward. If the flour was shipped to Europe via the St. Lawrence, it rarely arrived in time to compete with grain from other regions, being delayed during the four months that the river was ice-locked. When an uncertain English commercial policy towards Canada was added to these natural disadvantages, trade became precarious.[39]

The Montreal market began to show signs of weakness shortly after the prosperous trading season of 1818. Hamlet Scrantom, principal miller for Francis Brown and Company, lamented that "the prospect for the sale of flour at Montreal is not very good. It appears that not much will be wanted from us, in Europe." [40] Within two years heavy imports of flour flooded the Canadian market, sending prices down to \$2.25 or \$2.50 a barrel; although a bushel of wheat could be had at Rochester for as low as \$0.37½, the millers could barely stand the cost of transportation to Mon-

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A Directory for the Village of Rochester (Rochester, 1827), p. 94; *Rochester Telegraph*, Sept. 5, 1820 and Jan. 16, 1821.

[37] *Rochester Telegraph*, Jan. 26, 1819.

[38] *Ibid*., Dec. 1, 1819.

[39] Balthasar Henry Meyer, Caroline E. MacGill, and others, *History of Transportation in the United States before 1860* (Washington, 1917), p. 169; McNall, *Agricultural History*, p. 100.

[40] Hamlet Scrantom to his father, Jan. 24, 1819, "Scrantom Letters," p. 193.

treal.[41] A discerning canal enthusiast was prompted at this time to write: [42]

Nothing but the high price of transportation to Albany, has induced the millers of Rochester to send their flour to Canada. When the canal shall unite the Genesee with the Hudson, their flour will be transported to New York at much less expense than to Montreal, and it will meet a ready sale at every season of the year.

With the Montreal flour market so depressed, the construction of the Erie Canal was now more than desirable to the farmers and millers of the Genesee region. What made rapid completion of the project a necessity, though, was the enactment of the Canada Trade Act of 1822. Passed over the opposition of Canadian merchants, the measure placed duties on American flour and grain entering the provinces, and equally distasteful, it severely restricted American boats from taking part in the trade with Canada. Although the act was amended in 1826 and 1827 to allow flour from the states to enter Quebec duty free, the Erie Canal by that time was open through to Buffalo and was permanently diverting commerce from the lake region to New York City.[43]

At the same time that Rochester was experiencing a shift in its trade relations away from Canada, it was also witnessing a marked development along industrial lines. Manufactories in operation near the falls at the beginning of 1816 consisted of a few scattered sawmills and only two flour mills; by 1822, however, there could be counted in the village of Rochester four flour mills, seven sawmills, a tannery, a paper mill, woolen and cotton factories, numerous trip-hammer shops and blacksmith forges, and an array of skilled artisans engaged in sundry trades.[44] The blossoming of Rochester into an industrial town was unmistakenly accompanied by diversification, with a variety of small-scale industries seeking at once the benefits of the Genesee's water power and of the prospective growth of the village. Nevertheless, the flour mills continued to be the foci of this expansion. The millers during this period played leading roles, not only in industrial affairs, but in civic and political life as well, while the flour industry itself took on many of the modes of operation typical of a well-established business.

[41] *Rochester Directory* (1827), p. 94.
[42] *Rochester Telegraph*, Sept. 5, 1820.
[43] D. G. Creighton, *The Commercial Empire of the St. Lawrence* (Toronto, 1937), pp. 235–38.
[44] McKelvey, *Water-Power City*, pp. 87–88.

It must not be assumed, though, that industrial progress in these years proceeded smoothly, or that the flour industry, in particular, grew with any characteristic steadiness. Rather, periods of rapid advance were followed by periods of relative stagnation, these paralleling the oscillations of the national economy.

The boom that followed the cessation of the war in 1814 lasted well into 1816 and then began to taper off; its momentum, though, carried over into the succeeding year and induced the undertaking of additional industrial enterprises. Foremost among the new projects was a scheme of Elisha Johnson and Orson Seymour to construct a mill canal skirting the upper falls. Excavation was begun early in 1817, and by July Johnson's Race was completed, making available an additional 1,200 horse power for milling purposes at a cost of $12,000.[45] Even before the finishing touches were applied to the mill canal, William Atkinson was busy at its lower end erecting a gristmill with three runs of stones. Meanwhile a fourth mill, designed for four pairs of stones, was begun outside the village limits at Carthage, where it was to leash the power of the Genesee at the second cataract of the lower falls. Built by a group of enterprising promoters led by Elisha B. Strong of Canandaigua, the mill, finished in the summer of 1819, was in accord with their plan of establishing a new depot for lake commerce.[46]

Although 1817 had opened favorably for Rochester's flour industry, with heavy investments in new mills and enlarged facilities, by the close of the year the pace of progress had begun to slacken. This was due to the effects of natural disasters combined with ordinary "growing pains" rather than to a general economic displacement. There had been some difficulties at the beginning of the year when a rise in the cost of wheat to $1.75 or $2.25 a bushel brought "very considerable" losses to Rochester millers; [47] but, as the price of wheat soon declined to $0.87 while that of flour remained relatively high, the earlier market setbacks were more than compensated.[48]

More distressing was the lack of credit facilities which had always

[45] *Rochester Directory* (1827), p. 92; Samson "Scrapbooks," LI, 9. Although it provided more water power Johnson's Race was not quite as long as Brown's, measuring only some 60 or 70 rods.

[46] *Rochester Daily Democrat*, April 19, 1845; Turner, *Phelps and Gorham's Purchase*, p. 608; *Rochester Telegraph*, Aug. 10, 1819.

[47] *Rochester Directory* (1827), p. 92.

[48] O'Reilly, *Settlement in the West*, p. 362; Arthur Harrison Cole, *Wholesale Commodity Prices in the United States, 1700–1861: Statistical Supplement, Actual Wholesale Prices of Various Commodities* (Cambridge, Massachusetts, 1938), p. 178.

plagued farmers in the area and which suddenly became manifest within the town itself. Up to 1817 the individual miller, alone, or in conjunction with a few associates, was usually capable of furnishing the capital required to set up mills and to embark upon necessary enlargements. When his own assets were found wanting, additional funds occasionally could be obtained from the Bank of Utica and the Ontario Bank at Canandaigua. But reliance upon these outside sources of credit was inconvenient and often undependable. While Nathaniel Rochester could, upon occasion, extend considerable credit, even in amounts of $20,000, as was advanced to Hervey Ely and Company, one man's resources were incapable of providing the entire business community with enough funds for operating or capital expenses. When early attempts to obtain a bank charter were unsuccessful, Rochester was left without sufficient financial facilities to accommodate ever-increasing needs.[49]

Natural disasters contributed their share of hardships. Heavy rains early in 1817 caused the Genesee River to overflow its banks, resulting in serious damage to the Red Mill and Johnson's Race.[50] These damages were mild, though, in comparison to those inflicted by the devastating fire that swept the mill of Francis Brown and Company in May, 1818. The entire structure, along with 4,500 bushels of wheat, was destroyed, and damages were estimated at $17,000. The remarkable resiliency of those early millers was evidenced by the fact that within a half-year the owners had a considerably larger stone structure, the Phoenix Mill, built and in operation on the same site.[51]

By the summer of 1818 Rochester had more than recovered from its previous adversities, and the millstones in the village were once again furiously grinding a steady stream of grain. With the price of wheat as low as $0.87½ a bushel there was profit enough in the Red Mill to enable Bissel and Ely early in 1819 to give up an auxiliary mercantile business in order to engage exclusively in milling. Thus occupied, the firm of Bissel and Ely turned out 6,211 barrels of flour in the five months ending December 21, 1819.[52] Hamlet Scrantom, at the end of a season of tending the

[49] McKelvey, *Water-Power City*, pp. 67, 75, 76.

[50] *Ibid.*, p. 85; Hervey Ely to Nathaniel Rochester, Rochester, Nov. 20, 1822, *Nathaniel Rochester Collection*.

[51] *Ontario Repository*, May 5, 1818; *Rochester Telegraph*, July 7, 1818 and Jan. 19, 1819.

[52] Hamlet Scrantom to his father, Jan. 24, 1819, "Scrantom Letters," p. 192; Scrantom, "Old Citizen's Letters," p. 36; Bissel and Ely to E. Pomeroy, Dec. 22, 1819, *Nathaniel Rochester Collection*.

Red Mill, wrote to his father: "I . . . have had a hard time of it all summer and winter until about two weeks past, being obliged to keep it [the mill] going night and day the greater part of the time." [53]

In the midst of these good times another stone flour mill was undertaken, at the east side of the river on the edge of the main falls by Palmer and Solomon Cleveland, organized under S. Cleveland and Company.[54] The opening of the Cleveland mill, shortly after February, 1820, however, signaled the end of the brief period of prosperity. Economic conditions in Rochester quickly deteriorated as the effects of the Panic of 1819 reached the West. Rochester managed to escape the full force of the depression, which hit with severity most agricultural communities in the country; nevertheless, the flour industry of the village was faced with toppling prices for its product, since bountiful crops abroad reduced the demand for American flour.[55] A barrel of flour worth near $9.00 at wholesale in New York and Philadelphia at the beginning of 1819, sold for about $4.50 a year and a half later, while at Rochester the same quantity of flour in mid-1820 retailed for a mere $3.00.[56]

That the Rochester millers lost money as a result of the depression is almost certain, but the extent of their losses is not clear, for the information available is too scanty and pertains only to the Red Mill. Bissel and Ely attempted to cope with the low flour prices by producing in plentitude, with the hope of at least meeting costs or perhaps coming away with some gains from a slim margin of profit. In the interval between the harvests of 1819 and 1820, at the Red Mill, according to Hamlet Scrantom, who was now both clerk and inspector of wheat, more than 15,000 barrels of flour were ground and packed.[57] With an abundance of wheat selling at $0.37½ a bushel small gains may have been possible; but such could only have been the case for the limited amount of flour disposed of locally. Transportation and marketing costs most certainly would have absorbed more than the meager profit accruing from flour sold at Montreal. The proprietors of the Red Mill, in fact, seem

[53] Hamlet Scrantom to his father, Jan. 24, 1819, "Scrantom Letters," p. 192.

[54] *Rochester Directory* (1827), p. 93; *Rochester Telegraph*, Feb. 22 and June 27, 1820.

[55] George Rogers Taylor, *The Transportation Revolution, 1815–1860* (Vol. IV of *The Economic History of the United States*, New York, c. 1951), p. 336.

[56] Cole, *Wholesale Commodity Prices, Supplement*, pp. 186, 191; Hamlet Scrantom to his father [July 8, 1820], "Scrantom Letters," p. 194.

[57] Hamlet Scrantom to his father [July 8, 1820], "Scrantom Letters," p. 194.

to have sustained considerable deficits in the two seasons prior to the sale of their mill in July, 1821.[58] It was pressure from Nathaniel Rochester, however, rather than business setbacks that induced Josiah Bissel and Hervey Ely to part with their Red Mill, which was supposed to have "manufactured more flour for exportation than any Mill in the Western District of New York."[59] Continuation of the unpromising economic situation did not deter the two millers from erecting a new mill, the Aetna Mill, and again entering into the flouring business, this time under the name of Hervey Ely and Company.[60]

As the year 1821 ended, it became clear that the depression had run its course; the foreign grain trade once more revived, and there was a marked improvement in the volume of business activity.[61] But it was more than the usual recovery of business after a depression that set all of Rochester bustling in the waning days of 1821. The entire village was now astir in anticipation of the advent of the Erie Canal, which had already been opened from Albany to Utica in the summer of 1820. In autumn of 1821 work was begun on a massive aqueduct that was to carry the canal over the Genesee River, and excitement mounted as the canal builders drew closer and closer to Rochester.

Whereas in 1820 and 1821 four flour mills found it difficult to survive, by the fall of 1822 five mills were on the threshold of prosperity, while a sixth was auspiciously being raised. The last, referred to as the New Red Mill, was that of Thomas Hart Rochester, who built it upon a lot he had received from his father at the site of the Allan Mill.[62]

Clearly, with the impetus of the Erie Canal the village of Rochester could sustain an enlarged milling industry. Not only was this evidenced by the undertaking of additional mills, but also by the

[58] In a letter to Nathaniel Rochester at a later date Hervey Ely made clear the extent of those losses: "We commenced our business here with a Cash Capital of 14000 Doll[ar]s & . . . that Mill . . . has been the *primary, fruitful* source of our heaviest misfortunes, it was that & that alone which brought us to the verge of Bankruptcy. . . ." Hervey Ely to Nathaniel Rochester, March 12, 1823, in Blake McKelvey, ed., "Letters Postmarked Rochester, 1817–1879," Rochester Historical Society, *Publications*, XXI (1943), 18.

[59] *Rochester Telegraph*, July 10, 1821.

[60] *Ibid.*, Sept. 10, 1822.

[61] Exports of flour from the United States, for example, which had been 750,660 barrels in 1819, increased to 1,177,036 barrels in 1820 and 1,056,119 in 1821. *Hazard's United States Commercial and Statistical Register*, I (Oct., 1839), 251.

[62] *Rochester Telegraph*, Dec. 3 and 31, 1822.

establishment at this time of industries dependent upon that of flour making. The first of these, a factory for producing French burr millstones, started by Stephen Eldredge immediately after Thomas Hart Rochester had completed his mill, demonstrated the necessary specialization attending industrial expansion.[63]

An extension of Rochester's flour-making capacity naturally called for a corresponding increase in the amount of wheat received in the village. The problem of securing grain was eased by the same factors that had contributed to the need for an augmented supply. As soon as it became definite that the Erie Canal was to pass through Rochester, farmers of the Genesee Valley chose to regard the village as the agricultural entrepot for the region. In a single week in 1822 no less than 23,000 bushels of wheat were brought by sled to the mills in Rochester and Clyde (formerly Carthage), 7,000 of which were received in one day.[64] Liberal amounts of flour and wheat were also sent by riverboat to Rochester, where commission merchants, eager to handle the product, shortly appeared. Representatives of one Wall Street commission house set themselves up in early March, 1823, to receive and sell flour in New York City.[65]

Thus, even before the Erie Canal reached Rochester it was able to exert a profound influence upon the agricultural, commercial, and industrial life of the region. Although there were some who were skeptical as to whether good would accrue from this new outlet, most of the villagers of Rochester, now numbering some 2,700, were exuberant at the opportunities that the canal offered for local enterprise. The mill owners, especially, regarded the canal as a precursor of prosperous days.

The previous decade, it is true, had witnessed a remarkable *éclat* within the flour-milling industry. An inconsiderable business, continuing to grow both in times of prosperity and adversity, had flowered into a thriving industry which already seemed basic to Rochester's economic life and to the prosperity of the agricultural hinterland. But the difficulty of finding a market or markets convenient and adequate for an industry with continually expanding production had still to be overcome. Montreal had always been a precarious market, while overland and river transportation to New York, Philadelphia, or Baltimore was both slow and expensive. Thus, to the millers, a canal to the Hudson River appeared capable

[63] *Ibid.*, Dec. 24, 1822.
[64] *Ibid.*, Feb. 5, 1822.
[65] *Ibid.*, March 18, 1823.

of opening up unlimited possibilities for the marketing of flour, and of injecting new vigor into an industry which had been beset by insecurity.

As the Erie Canal was to relieve the tightened market conditions then prevailing, so it was to introduce other novel elements into Rochester's economy, elements which tended to bring on a new type of insecurity. Prior to 1823 industrial expansion had proceeded, for the most part, within the bounds of immediate circumstance. The grain ground at the Rochester mills came from the surrounding agricultural region; capital investments and operating funds were supplied by local sources; and, although for periods of time a distant market was utilized, such was the case only to a limited extent. The fluctuations in the flour business were thus directly attributable more to local than to national or international conditions. With the canal as an artery of trade, however, the millers of Rochester would be able to reach out further for markets and sources of wheat; additional capital would be attracted. The Genesee flour industry would burst its parochial bonds, but the region would be more seriously affected by complex and remote economic factors; millers, farmers, and townsmen would feel the recurrent national business disturbances with increasing severity.

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The Early Evolution of Business Organization in France

National divergencies in economic development produce variant national patterns of business organization. But the reverse is also true. In France, the legal structuring of business has been a causative factor of some importance, imparting a distinctive character to the timing and nature of French economic growth. At the same time, however, the history of organizational evolution in France has a certain universality. Here, as elsewhere, such evolution essentially has taken the form of a series of compromises between the need for greater corporate flexibility and the fear of abuse. From 1673, when the unlimited liability of partners was affirmed, the pressures of economic expansion produced a succession of devices aimed at facilitating the flow of investment funds into commerce and industry. When, however, that point was finally reached where limited investor liability, freely negotiable shares, and recognition of a corporate autonomy had been achieved, fear of fraudulent practice became a dominant factor. Legislative steps to protect the investing public introduced rigidities into French business at the very time when internal growth and international competition for markets called for a highly adaptable business system.

> Much of the industrial and commercial development of the nineteenth and twentieth centuries has been made possible by the corporate mechanism. By its use investors may combine their capital and participate in the profits of large or small scale business enterprise under a centralized management, with a risk limited to the capital contributed and without peril to their other resources and business. The amount of capital needed for modern business could hardly have been assembled and combined in any other way.[1]

These few words express clearly the problem which faced the early modern capitalist and his solution to that problem. Some way had to be found to carry on the tremendous tasks of modern business, but when the instrument, the corporation, came into being, it brought in its train a series of evils that required regulation. Whenever and wherever this form of business structure arose and

[1] H. W. Ballantine, *Ballantine on Corporations* (rev. ed.; Chicago: Callahan and Company, 1946), p. 1.

developed, the laws regulating it had to reflect the necessities of the economic and financial situation of the country. Not only did the people have to be protected against the rapacity of some of the early financiers, but the successive governments were also interested in the wealth which might be brought under their control and the strength which could be derived from internal development.

In some countries the process of structural development took place at an early period and became arrested in time; in others it began early and continues to the present day. In France the phenomenal development of the corporate form of enterprise took place after the enactment of the Law of 1867. Economically, France was certainly prepared to adopt the *société anonyme*, the corporate form of business organization, at a much earlier date, but because of the restrictions which French law placed in the way of the entrepreneur it was not practical for him to use this business mechanism.

Incorporation prior to the Law of 1867 was only possible by special grant of the government, which could be obtained in a number of different ways. The period from 1807 to 1867 embraces the transition from the old forms of business structure to a recognition of the values inherent in the corporate enterprise. It was during this half century that the chains limiting the use of the *société anonyme* as a form of business organization were gradually unshackled. It was a period of gestation for concepts which made the progressive Law of 1867 possible.

During the first half of the nineteenth century and earlier, various forms of semicorporate organization were created and tried in the hope of granting French business enterprise a means of expanding according to its demands and the realities of the period. Speculation and abuses of various kinds in the use of these semicorporate types of business organization, however, finally compelled the French to realize that perhaps the *société anonyme*, which they feared, should be given greater freedom. The history of French corporate development is thus a series of compromises between the need for expanded business enterprise and the fear of the abuses which were constantly practiced and which required stringent regulation.

Antecedents of the laws which characterized this transitional period are in themselves of vital importance in establishing and defining the problems faced by these legislators. New forms of business organization were continuously being developed during the early modern period of French history to answer the needs of a growing economy and a quickening awareness of the importance of organiza-

tion to entrepreneurial success. Agile entrepreneurs consistently devised new means to accomplish their aims, but the success which these new forms enjoyed was largely dependent upon the attitude of the governmental authorities, whose own interests necessitated an active control or even participation in these new developments.

Principal Legal Structures

In the course of any discussion of the corporate variety of business it is necessary to use a series of terms which are more properly the province of the economist and lawyer than of the historian. It is also true that distinctions which are the forte of the legal mind bear heavily upon the problem. Sharp distinctions of an infinite variety must be clearly understood if a rational synthesis is to be created to explain the various changes in the legal structure of the corporation, and if these changes or mutations are to be explained in terms of political and economic theories and realities. Concepts in themselves, *ideen Geschichte*, are difficult enough, but when they are combined with jurisprudence and legal terminology clarity becomes an absolute necessity.

In the light of these facts it is perhaps best to establish the modern meaning of the terms used in French law. The law of the Republic makes a sharp distinction between the two business forms, the *association* (group combine) and the *société* (company), although in common parlance these terms were and are used virtually interchangeably. To the jurist and the legislator, and consequently to the businessman, these words stand in the same relationship to one another as the genus to the species. While all permanent groups with a common aim are in effect *associations*, only those particular combinations of persons or capital which have as their goal the realization of profit (*benefice à partager*) may be designated as *sociétés*.[2] Thus under Article 1832 of the Civil Code a *société* is defined as a contract whereby two or more persons contribute their skill or money and have the inherent right of sharing in the profits of the enterprise.[3]

[2] F. Déak, *Cases and Materials on Selected Topics in the Law of Business Organization in France* (Unpublished text in the Columbia Law School Library, Sept., 1932), p. 1; P. Pic and J. Kréher, *Des Sociétés commerciales* (Paris: Librairie Arthur Rousseau, 1940), p. 2.

[3] P. Lagarde and L. Batardon, *Les Sociétés commerciales en nom collectif; en commandite simple; anonyme; en commandite par actions; en participation; à capital variable* (2e éd.; Paris: Dunod and E. Pinet, 1910), p. 3. The fundamental laws regulating French *sociétés* are to be found in the Civil Code

These *sociétés*, however, which have just been defined, are further divided by law into two classes, i.e. *sociétés civiles* and *sociétés commerciales*. The *sociétés commerciales* are those formed for carrying on commerce or for performing acts of commerce and are businesses that take one of the commercial forms defined by the Law of July 24, 1867, or that of March 7, 1925.[4] All organizations which do not fall under this category, but are still *sociétés*, are placed in the category of *sociétés civiles*.

But even these distinctions were not sufficient for the law, and the *société commerciale* was itself divided into two classes based upon the structure of the organization: the *sociétés de personnes*, which were in truth merely partnerships in the English or American sense of that word: and the *sociétés de capitaux*, which were the corporate or company forms of enterprise.[5] Prior to the development of these forms still other varieties of business organization existed. The particular type of *société* which carried on the functions of normal commerce in the early modern period, and which over the years lost ground as the popular form of organization, was modified by the terms *générale* or *libre* or even more commonly *en nom collectif*.[6]

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and in the Code of Commerce. From time to time certain special laws have been passed having an important bearing on the *société*. The most important of these is the Law of July 24, 1867. Important modifications have been made in this law by the Laws of Aug. 1, 1893, July 9, 1902, and Nov. 16, 1903. Déak, *op. cit.*, p. 1.

[4] Lagarde and Batardon, *op. cit.*, p. 3. It is the declared purpose of a *société* which, in principle, gives to it the character of being *civile* or *commerciale*. The mining, quarrying, and farming industries are considered *civile* and not *commerciale* in nature. A *société commerciale* is able to declare itself in a state of bankruptcy or judicial liquidation whereas this is not possible for a *société civile*. *Sociétés commerciales* are required to keep account ledgers under Article 8 of the Code of Commerce and are also subject to the commercial courts and to the special fiscal laws which do not apply to other *sociétés*. P. Pellerin, *French Company Law (Société Anonyme). A Practical Handbook for Lawyers and Businessmen* (London: Stevens & Sons, Ltd., 1920), p. 30, note B, makes this point succinctly. "In French Law, there is a difference between *'Sociétés Civiles'* and *'Commerciales.'* They are either civil or commercial according to the nature of the operations carried on by them. Acts of trade are characteristic of a *'Société Commerciale.'*"

[5] The *sociétés de personnes* (associations of persons) are the *société en nom collectif* and the *société en commandite simple*. The *sociétés de capitaux* (associations of capital) are the *sociétés par actions* (joint stock companies).

[6] H. Lévy-Bruhl, *Histoire juridique des sociétés de commerce en France aux XVII^e^ et XVIII^e^ siècles* (Paris: Domat Montchrestien & F. Loviton & Cie., 1938), pp. 30 ff. The last term is the most descriptive one because the typical firm name is derived from it. The names of such organizations were sometimes formed from the names of the associates tied together by the conjunction

Simple Partnerships

Recent scholarship has revealed that the Roman law regarding the *societas* has had no direct overwhelming influence on the origins of the simple partnership of the modern world. No direct continuity of practice can be demonstrated to have survived from the ancient Roman world into modern times. Analogies may be established, but there is no continuous line of development. The *société en nom collectif* is a product of the Middle Ages.[7] It traces its pedigree from very humble progenitors. Like the Roman *societas* it had its origin in the family. Several members of the same family continued living together and carried on their craft in the same shop. The original joint household is indicated by the word *company* (*companis*); and the formula used in declaring such a partnership long retained phrases such as "men who ate one bread," and "men who have one bread and one wine." While the practice at first grew up between brothers, it was later extended to fellow-craftsmen unconnected with one another by blood. From the manual crafts it was easily introduced into commerce.[8] In the twelfth century the chief characteristics of the *société en nom collectif* were firmly fixed by statute in the Italian Republics which specialized in the Mediterranean trade. In France the Ordinance of 1673 did not innovate anything but merely confirmed an existent entity already recognized by the jurisprudence of the Parlement.[9]

Normally the capital of the *société en nom collectif* was not large, but it goes without saying that there were exceptions to this rule in the banking field where funds were of great importance.[10] It

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et, e.g., *Dupont et Durand en Compagnie.* In most instances when the *société* was formed by more than two individuals, one or two would be designated by name and the remainder would be gathered under the final phrase *en compagnie.*

[7] W. J. Ashley, *An Introduction to English Economic History and Theory* (London: Longmans, Green, and Co., 1912), II, 412.

[8] Ed. H. Higgs, *Palgrave's Dictionary of Political Economy* (4th ed.; London, 1925), III, 67, *s.v. Partnership.* "The trade of these family associations was carried on in a common workshop, or warehouse, known by some well-known sign which was used as a comprehensive designation of the persons using it as the center of operations. Hence arose the use of firm names, and the personification of the mercantile unit, represented by the sign of the house, as well as the custom to recognize every partner as agent for the partnership." Ashley, *op. cit.*, II, 415.

[9] Pic and Kréher, *op. cit.*, pp. 111–12.

[10] One need think only of the early Italian bankers or even of the later Fuggers of Augsburg to see clearly that there were occasions when truly great sums of capital were amassed and put into business ventures which were merely partnerships. Lévy-Bruhl, *op. cit.*, p. 31. The *Société de banque*

might seem that the best way to define the *société en nom collectif* would be as an organization in which all of the associates played an active part. But this criterion is imperfect, for there were created certain *sociétés en nom collectif* which had partners who played only a passive role.[11] The essential characteristic of this type of *société* was, however, the joint and severally indefinite liability of the associates. The members of such a business enterprise were not only held *in solidum*, but they were also held *ad infinitum*.[12] As a result of this complete liability it was not impossible for one partner to ruin another financially. The collapse of one member of the enterprise might reflect upon the credit of all and might even cause all to sink into poverty. This danger the partners, in the course of time, sought to avert by various devious means, until the government by the Ordinance of 1673, Title IV, Article 7, finally found it necessary to enshrine this most simple doctrine, that all members of this type of *société* would be held jointly and severally liable for the debts of the simple partnership. With the final enactment of this legislation the value of this particular legal structure was greatly diminished.

The Limited Liability Partnership

Singular as it may seem, the more complex *société en commandite* (limited liability partnership) actually developed earlier historically during the Middle Ages than the simple *société en nom collectif* (simple partnership) in its most complete form.

There are actually two main schools of thought on the origins of the *société en commandite*. The more modern school, represented by Ashley and others, holds that the *société–commandite* is almost purely medieval in origin and is quite independent of Roman juridical thinking. The adherents of this school believe that the oldest form of *commenda* was a medieval partnership which adhered only for a particular voyage or enterprise. It has affected all subsequent forms of partnership, but it has left its clearest impress on the *société en commandite*.[13] The older view, which is best represented

Pourton et Ravel, founded in 1783, had a capital of a million *livres*. Thus the accumulations of capital in banking and related operations continued to be very large.

[11] Lévy-Bruhl, *loc. cit.*

[12] *Ibid.*, pp. 31–32. Lévy-Bruhl points out that in this instance the rule is by no means imperative, and if the associates wish to limit their losses, they are able to do so on the condition of making it known to the public in the charter of the *société*.

[13] Ashley, *op. cit.*, p. 412. See also Appendix 1.

by the article in *Palgrave's Dictionary of Political Economy*, traces a direct connection from the ancient world, particularly the Roman legal provisions for limiting liability, to the medieval *commenda* and subsequently to the *société en commandite* (see Appendix 1).

It must be remembered that in the *société en nom collectif* all parties were entrepreneurs and generally took part equally in the ventures. They were supposedly social equals, and there was no reason for anyone not to attempt to make his fortune. But the later Middle Ages presented a serious problem to people who were socially above participation in business in an active managerial role.

The rising prices that were current in Europe during that period found the majority of the nobility with fixed incomes and with the greater portion of their wealth invested in land. The result was that in the search for liquid assets which might be used to finance crusading ventures or merely to keep themselves properly furnished, the nobility were often forced to free their serfs for monetary considerations and even in some instances to resort to the Lombard or Jewish bankers and money-lenders. The noble who would escape from these snares, no matter how proud he might be, was faced with the alternative of venturing into commerce. There was at his disposal the contract of the *commenda*, developed during the early Middle Ages. This was less a type of business organization in the strictest sense of the phrase than a device of contractual modality which was supple and took varied forms.

By means of the *commenda* contract the noble was able to give his money to a banker for investment and receive a profit without either seeming to join the venture or to lend his hard-won cash at interest. Thus he could devote himself to commerce without derogation. It was by means of this same instrument that bankers and other capitalists were permitted to make investments which had the *sub rosa* character of loans without violating the canonical censure against the taking of interest. By the use of the *commenda* the creditor was theoretically receiving payment for the loss of the use of his money while it was in the hands of the debtor and not for the risk which was involved should the debtor default. This was not a negation of the Biblical prohibition against the taking of interest from a coreligionist, and the debtor could have no recourse to ecclesiastical courts to avoid payment of his just debt. The device of the *commenda* permitted Christians to enter the banking career which had previously been the domain of the Jew and the infidel.

The amount of business carried on in Europe in the thirteenth, fourteenth, and fifteenth centuries, however, became so great that it was no longer possible in any case to apply the canon against the taking of interest.[14] As the number of loans increased and the business transactions became more complicated, interest was openly paid without recourse to any of the accepted subterfuges developed during the Middle Ages.[15]

Spread and Refinement of the Commenda

In the Italian mercantile cities of the High Middle Ages – Venice, Pisa, and Genoa – prosperity prevailed because of the large maritime trade, and the *commenda* was the favorite form of association. It was in the beginning only an arrangement of a temporary

[14] Higgs, *Palgrave's Dictionary of Political Economy*, III, 68. "The phenomena of business partnerships (Societas) [*sic*] presented themselves for judgement before the schoolmen and canonists of the middle ages, chiefly in their relation to the theory of usury. A partnership wherein each member shared in the management of the business raised no difficulties: the profit (*lucrum*) might in such a case be regarded as the reward of labour. Not only so, but a partnership in which some of the members contributed capital only, without labour, and yet expected profit, was regarded as equally allowable, — on one condition, viz. that the investor really 'adventured,' *i.e.*, really shared in the 'risk,' both as regards the sum invested and the gain to be derived from it. The running of risk was held both to furnish an ethical justification for gain, and also to prove that the investor remained the *owner* of the sum invested, so that the contract was clearly distinguishable from one of Loan (*q.v.*) or Mutuum, in which the ownership of the money was held to pass over to the recipient. Any attempt by subsidiary contracts to assure the investor against the loss of his capital, or to guarantee a profit independent of the chances of trade, brought the arrangement within the scope of the prohibition of usury." Also see B. N. Nelson, *The Idea of Usury from Tribal Brotherhood to Universal Otherhood* (Princeton: Princeton University Press, 1949), pp. 3–28, who deals with the changing concepts of usury during the Middle Ages.

[15] Ashley, *op. cit.*, pp. 411–12. "Like the custom of creating rent-charges, so also the mediaeval practice and theory of partnership have been explained as primarily due to the effort to escape from the operation of usury law. But recent research has shown that this is a gross exaggeration. The practice and legal doctrine grew up independently out of the needs and circumstances of the earlier Middle Ages, and had reached a complete shape before any serious effort was made to enforce the prohibition of usury in ordinary business life. The effort to enforce that prohibition did indeed, as we shall see, prevent certain developments of the practice of partnership which might otherwise have taken place; but it did not create the practice, nor did it contribute in any positive manner towards its modification. We have not then, to trace a series of adroit subterfuges, introduced or apologized for by the canonists in order to meet the necessities of commerce; we have rather to observe the way in which the cannonist doctrine, as it gradually formed itself, treated a practice which was already established."

nature, and was used by capitalists who wanted to join in some particular maritime enterprise with limited risk. Later it was to be applied to internal trade, and more permanent relations between the parties became customary. By the fourteenth century there is evidence of the *société en commandite* being used in the Midi.[16] In 1669 the merchants of Paris addressed a memorial to the king asking for a general ordinance on commerce which would bring into line all the conflicting edicts and customs. A *Conseil de Reforme* was appointed in 1670 under the presidency of Pussort, but the real author of the Ordinance of Commerce of 1673 was its reporter Jacques Savary. By the Ordinance of 1673 the *commandite* was strictly regulated. Whether a *société* was to be classified as *en commandite* or merely *générale* was made dependent upon the information offered the public as to whether the entrepreneurs were acting on their own behalf or as agents for others. By this same Ordinance, however, under Title IV, Article 2, it was made mandatory that such information be furnished for the public record. An extract of the charter of the *société* had to be recorded and published in the registry of the *jurisdiction consulaire*, and in that extract the names of all of the *commanditaires* as well as the associates who acted in the name of the *société* had to be given.[17]

The distinction between active partners (*associés commandités*) and investors (*associés commanditaires*) was of crucial importance, for the active partners were liable *ad infinitum* as well as *in solidum* and thus risked their entire fortunes while the *commanditaire* enjoyed limited liability to the extent of his shares under Title IV, Article 8. Thus, great impetus was given to investment but little stimulation to entrepreneurial activity with its full risk. As a result of this provision, money now flowed in increasing quantities into the coffers of the *sociétés en commandite* as investors sought the benefits of the limited liability offered; at the same time the companies organized by royal charter found it increasingly difficult to raise capital. The Ordinance of 1673 lasted until the end of the Old Régime, and a large part of it was then incorporated into the Code of Commerce of 1807.

The *Parfait négociant*, written by Jacques Savary, may be considered as a commentary on this great legislative act of 1673. In it Savary insisted upon the importance of direct trade commerce

[16] H. Sée, *Histoire économique de la France* (Paris: Armand Colin, 1948), I, 60.

[17] Lévy-Bruhl, *op. cit.*, pp. 33 ff.

and pointed out the difficulties and the risks that were involved. It was in this direct commerce (*commerce en gros*) that the *société en commandite*, together with the *société anonyme*, described hereafter, was most commonly employed. These two types of business organization were the principal means available at that time for the formation of commercial enterprises requiring considerable capital.[18]

The second half of the eighteenth century witnessed a great deal of progress in French industry. This was particularly true in the development of mining and especially coal mining. After the *arrêt du conseil* of 1774, companies became the dominant form of business organization in the mining of coal. These companies were either *sociétés en nom collectif* or *en commandite*, and they spent considerable amounts of capital. They were led by intelligent and energetic men such as the Chevalier de Solages, Mathieu, Laurent, and Tubeuf.[19] In the French cotton and calico-printing industries, even after machinery had become dominant, the *société en commandite* remained a popular form of organization.

Rise of the Joint Stock Company

With the enactment of the Ordinance of 1673 and the rising of the tide of French colonialism and overseas trade another type of legal structure came into prominence to supplant the two older forms in the different fields of commercial enterprise. It would be a grave error to confuse this new variety of business enterprise, the *société anonyme*, as it appears in the texts of the French law of the Old Régime, with those groups which are so designated today. At present the *société anonyme* is more commonly the *société par actions* (the joint stock company), but during the seventeenth and eighteenth centuries the so-called *société anonyme* was in reality a *société en participation* (joint adventure company). It bears many similarities to the British companies of adventurers of a slightly earlier and coeval period. The main characteristic was that the company itself was well publicized, but that the names of the owners were unknown to the public.[20]

[18] Sée, *Histoire économique de la France*, I, 230, note 5. *Le Parfait négociant*, 2e partie, chap. I. The nobility had the right of being *commanditaires*. Moreover, by the edict of Dec. 5, 1664, Colbert permitted gentlemen to engage in sea commerce without derogation provided they did not engage in retail sales (*vendre en détail*).

[19] Sée, *op. cit.*, I, 361.

[20] Lévy-Bruhl, *op. cit.*, pp. 40–41. Savary, the political economist, in his writings differentiated four varieties of the *société anonyme*. The first, according to him, was that in which a convention was concluded between a merchant

By the formation of a *société anonyme* as a joint adventure the associates were not bound by joint and several liability. It was primarily because of just this feature in the *société en commandite* that the Ordinance of 1673 had been promulgated, but strangely enough this statute made no mention of the *société anonyme*. The merchant could, therefore, gain many of the advantages of the *commenda* by adopting the organization of the *société anonyme*. This form of business structure, however, could only serve under a specified set of circumstances and did not provide a means whereby merchants could unite large resources for a lengthy and concerted venture that involved a certain degree of risk and demanded certain freedom of action on the part of the managers. Only the joint stock company, or *société par actions*, had the flexibility required for successful large-scale enterprise and at the same time guaranteed the safety of the noninvested assets of the shareholders.

An examination of the sources of the Old Régime shows a complete series of business enterprises which differed from those hitherto discussed in that they no longer had their basis in the concept of *intuitus personnae*. They were based on the abstract idea of an impersonal economic entity which manifested itself in the existence of divided shares in a business venture. These divided shares were more or less easily negotiable capital stock.[21] The *société par actions* may be classified as the most common form of *sociétés de capitaux*. The essential characteristics of the *sociétés de capitaux* were the limitation of the liability of the associates to the value of their holdings in the stock of the company (*apports*), the freedom to transfer shares, and the division of the capital into shares of equal value.

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who received a cargo and another merchant, who, for a share in the gains or losses, sold the cargo. This example can be extended to virtually all cases where for a single operation two or more merchants share in the gains and losses connected with an enterprise. Savary distinguished it from his second category wherein two or more merchants joined together for the importation and the sale of certain commodities in exceptional circumstances such as the sale of wheat in France during the wheat famine. His third type was that one which was formed at fairs and consisted of agreements among the merchants not to outbid each other, but rather to share the merchandise according to a just arrangement or proposition which had been agreed to in advance. Finally, the last kind of *société anonyme* consisted of an agreement among the great merchants who had a monopoly on several products and agreed to sell only at monopoly prices fixed in advance by convention. Needless to say, Savary's classification is not generally accepted by modern scholars, nor was it even universally accepted in the France of his day.

[21] Lévy-Bruhl, *op. cit.*, p. 43.

At no time during the entire period of the Old Régime were *sociétés par actions* legally formed as organizations based on contract at common law, and even as late as the Revolution were not recognized among the regular forms of trade. Since this type of company was the means for accomplishing certain individual enterprises of public interest, it received special legislative attention. Every *société par actions* became the object of a special inquest and a preliminary royal authorization, usually in the form of letters-patent, was a necessary prerequisite to formation. The letters-patent, in turn, became the company's charter and bylaws. Since the state issued the letters-patent, it could always revoke them at will. In this manner the government preserved, *ipso facto*, the right of surveillance over the operations of the company, and thus maintained some form of control. That the control was more illusory than real can be shown by the Law debacle and by the fact that so many of these companies were in constant financial difficulty.[22]

Since the *société par actions* or joint stock company was an answer to demands for extremely large and mobile concentrations of capital, the generating impulse for this variety of business structure is not to be found before the nineteenth century. As a result, the *société par actions* is essentially a product of that century and not an earlier period. Of course, this does not imply that such corporations developed suddenly and did not have prototypes in earlier periods. Such precursors, however, lacked many features which are basic to the fully developed joint stock company. During the High Middle Ages concessions were made by the various sovereigns to groups of capitalists who were charged with carrying out certain enterprises which supposedly promoted the general interests. It was in this fashion that banking, for example, derived many of its rights from the state itself. In fifteenth-century Italy, banks existed which had capital represented by assignable title analogous to the shares (*actions*) in modern law. The prototype of this variety of bank was the Bank of Saint George, founded in Genoa in the first decade of the fifteenth century and finally dissolved in 1799.[23]

The international colonial race that took place in the seventeenth and eighteenth centuries witnessed the development of many features

[22] *Ibid.*, pp. 44–45. The extensive nature of some of the concessions was one of the reasons for royal control of the companies, for the king was depriving himself of some of his rights as sovereign to the profit of the company. Thus he might, on occasion, grant them the right to carry on war and to administer justice.

[23] Pic and Kréher, *op. cit.*, p. 115.

that were to be basic to the fully developed *société par actions* when this form of business organization reached maturity under the pressure of the nineteenth-century industrial expansion. The privileged colonization companies created a class of stock that had all the modern attributes and characteristics. This stock was fully transferable, negotiable on the Bourse, had a fluctuating value which lent itself marvelously to speculation and money-changing, and, finally, was equally adaptable to the requirements of great enterprises or great frauds.[24]

In France during the seventeenth century, particularly under the aegis of Colbert, the large overseas trade companies made their appearance. These were invested with revokable royal charters that contained truly royal rights, such as those of supporting troops, issuing general edicts, or even striking coinage. Such companies, however, despite their monopolistic powers, still had to rely heavily upon royal patronage for the subscription of their negotiable stock. Almost all of the great companies of commerce in France during this period were born under government direction.[25] Thus, when the government tried to establish the *Compagnie du Nord* it encountered difficulty because of reluctance on the part of private citizens to invest in the company's shares. Only when the merchants of Bordeaux were threatened by the government with the loss of special privileges did they come forth and purchase the stock. Even so, the king was compelled to subscribe for one-third of the initial capitalization of the company and to agree, moreover, to accept on his investment all the initial losses of the company. The same difficulties were experienced when the government tried to form the Levant Company. The merchants of Marseille, who drew much of their wealth from the Levant trade, were reluctant to invest capital in the government-sponsored Levant Company. As the scope of French colonial ambitions expanded, the king and his ministers were forced to invest their capital and to use their influence to attract new capital for the formation of two other great companies, the *Compagnies des Indes Occidentales* and *des Indes Orientales*.[26]

[24] *Ibid.*, pp. 115–16.

[25] L. J. P. M. Bonnassieux, *Les Grandes compagnies de commerce. Etude pour servir à l'histoire de la colonisation* (Paris: E. Plon, Nourrit et Cie., 1892), p. 166.

[26] As quoted in Pic and Kréher, *op. cit.*, p. 116; Bonnassieux, *op. cit.*, pp. 261 ff.; M. Beard, *History of the Business Man* (New York: The Macmillan Company, 1938), pp. 370–71.

Colonial trade was still most important in eighteenth-century France, but two events were destined to bring about the fall of the first French colonial empire. The improvident wars of Louis XV resulted in the loss of the Indies and Canada to the British. At home the overexpanded *Banque de Law*, which was created at the start of the reign of Louis XV in the form of a *société par actions*, had taken unto itself, by special concession, all the rights and monopolies of the *Compagnie des Indes Orientales* and, further burdening itself with the duty of tax farmer of the realm, finally collapsed because of the unbridled speculation to which its shares gave rise during the Mississippi Bubble.[27]

During the eighteenth century the exploitation of the wealth of metropolitan France became an objective of many business concerns and of the government itself. A number of *sociétés de capitaux* were formed for this purpose rather than for the exploitation of overseas lands. Among these may be found concerns such as the Company of Mines of Anzin, the Company of Mont-Cenis, and the Company of Mines of Bourbonnais. All of these companies even though they were purely private enterprises were required to obtain royal permission in the form of letters-patent, but in most cases the governmental supervision was nil. There were, of course, certain notable exceptions. Some of the private corporations came under governmental scrutiny by reason of the nature of their product. An example of such an enterprise was the forges of Mont-Cenis (Le Creusot), which because of their military importance, even though they were organized as a private company, came under governmental scrutiny. Those concerns, however, which were primarily organized to exploit purely private industry remained free of this disability and could fix their own bylaws. Such relative freedom made it possible for the associates to limit the personal liability of all participants other than the managers to the value of their investments, by merely including such a provision in the contract of capitalization (*pact social*). Such clauses limiting the liability of the associates could be very general and, on occasion, were even extended to include managerial associates.

In many instances the capital of these concerns was divided into shares at the time of their incorporation. Such shares were fully negotiable and sometimes consisted of bearer shares (*titres*

[27] Pic and Kréher, *op. cit.*, pp. 116–17; H. Sée, *Modern Capitalism* (New York: Adelphi Company, 1928), trans. by H. B. Vanderblue and G. F. Doriot, p. 91.

au porteur). These bearer shares granted their owners the right of participation in the general meetings of the *société* as well as a share in the profits. More important, however, these shares constituted a demonstrable property right in the particular business enterprise and were thus symbolic of the fact that the *sociétés de capitaux* were in the truest sense legally autonomous entities apart from the individual participants. None of the forms of business organization hitherto discussed involve this concept at all.[28]

A survey of the writings of the economists of the period in question indicates that they were unmindful of this genus of corporate enterprise, or if they were aware of it just mentioned it in passing. Pothier and Jousse, the eighteenth-century jurisconsults who collaborated in their researches, make no mention of this form of *société*, and both the elder and the younger Savary as well as Bormir merely mention the edicts forming the great companies of navigation, but they do not devote space to a theoretical study of the *société par actions* as a form of business organization. It is surprising to think that the early French commercial and legal writers chose to regard as a stepchild that form of business organization which was to become the backbone of more modern business. Perhaps the reason for the scant attention it received from these early authors was the fact that the first *sociétés* of this type were semipublic in character, but certainly by the middle of the eighteenth century, when some of these men were still active, there existed *sociétés par actions* of a purely private nature.[29]

Participant Liability and the Corporate Legal Entity

One of the most advantageous features of the *société par actions* was the limited liability of its shareholders. This limited liability, however, had not always existed for corporate investors in France. Unless there was a specific clause in the original charter of incorporation or a subsequent amendment in the charter to contain such a provision, all shareholders were completely responsible, *ad infinitum* and *in solidum*, just as were the members of the *société en nom collectif* (simple partnership). After the year 1780 these limiting liability clauses were multiplied manyfold. The nature of the limited liability clauses tended to cause much confusion. Thus, in some instances, the stipulation is found that the liability of share-

[28] J. Rault, *Les Sociétés commerciales* (Paris: Librarie du Recueil Sirey [Société Anonyme], 1950), p. 10.

[29] Lévy-Bruhl, *op. cit.*, p. 43.

holders with small holdings was limited to the amount of their shares, while the liability of major investors in such a business enterprise was unlimited. Order was brought out of this confusion by the legislation of the Revolutionary and Napoleonic period. The Gorneau Project of the Year IX (1800) stated in Article 20, "The shareholders will only be held for the losses up to the amount of their shares." [30]

This concept was further re-enforced in the obligation imposed on the *sociétés par actions* by the Code of Commerce (Article 29), which stipulated that the corporation should not have in its title the names of any of the associates.[31] This restriction had been commonly imposed upon the old form of *société anonyme*, or joint adventure company, but for almost a diametrically opposite reason. In the case of the old *société anonyme* it was held that the parties involved did not exist before the public, and the organization was merely a means for settling accounts between merchants. On the other hand, the *société par actions* depended, to a greater extent than any other kind of *société*, upon the public for its capital. Breaking away from the principle of *intuitus personnae*, it admitted anyone as a participant, without preliminary investigation. There was no interest in the person of the investor but only in his money; capital invested in the business was the main consideration. The solvency and the competence of the associates were not taken into account. The capitalization alone was known to the public, and the names of the shareholders were withheld because publication might hinder the circulation of shares and would be valueless to a third party.[32]

Reaction to Liberalization

It is easily seen that the *sociétés par actions* could be abused by speculators of questionable character. Since the corporations no longer appealed for funds to people within a select circle and known to each other, but rather to the general public, the public had only itself to blame for instances of misplaced confidence. It was the government's duty, at least theoretically, to exercise some degree of control and to prohibit the shareholders' money from becoming the booty of swindlers. In the case of the royal companies and in other semipublic *sociétés* where the king or his ministers

[30] *Ibid.*, p. 50.
[31] *Ibid.*, p. 51.
[32] *Idem.*

reserved certain rights in the administration of the enterprise, this control existed by definition. The private corporations, however, offered no shareholder protection whatsoever. This fact gave rise to the question of whether or not it was judicious to subordinate the creation of all *sociétés par actions* to governmental authority.[33]

At the period of the termination of the Old Régime and the beginning of the Revolutionary era numerous scandals broke out emphasizing the lack of shareholder protection. These scandals provoked many radical countermeasures on the part of the revolutionary government. In order to prevent further unjustified enrichments built upon the ruin of unsuspecting investors, the government passed the decree of August 24, 1793, which suppressed all enterprises having as part of their title *Caisse d'Escompte* or *Compagnie d'Assurances à Vie*. In addition, they suppressed all companies whose capitalization was based upon bearer shares, and prohibited the establishment of such corporations in the future unless granted specific authorization.[34]

These harsh measures, generally not too successful because exceptions were constantly being made, did not last long and were in large measure revoked by the Law of 30 Brumaire, Year IV (1795). These dangers which it was hoped might be avoided were deeply impressed upon the minds of the authors of the projected Code of Commerce. Gorneau and his collaborators in their project of the Year IX were strongly of the opinion that no *société anonyme* should be constituted without governmental sanction; it should be subject to the tribunals and chambers of commerce. This viewpoint encountered lively opposition. It was, however, upheld in the second revised edition of the Code. The principle of governmental authorization was defended in the discussion of the *Conseil d'Etat* by Cambacères in these terms: [35]

> The public order is interested in all *sociétés* which are formed by shares because these enterprises are very often only a snare held out to the credulous citizens. Without a doubt only a *société* whose operations are based on its own money (*propre fonds*) has no need of authorization; but if it obtains its funds by shares put on the exchange it is necessary that a superior authority examine the value of these effects and determine whether or not any frauds are involved.

This thesis was accepted and became Article 37 of the Code of Commerce.

[33] *Idem.*

[34] *Idem.* The Law of 26 Germinal, Year II (1793), suppressed equally the *sociétés financières*.

[35] *Ibid.*, p. 52.

For the next half century all French corporate enterprises were to remain bound by these new provisions to protect the investor. In consequence, French business was severely handicapped in meeting the opportunities created in this period by rapid internal development. Corporate restrictions carried forward out of history had much to do with loss by France of the struggle for competitive markets that came to a climax during the second half of the nineteenth century, a failure, in turn, that bore heavily upon the future economic development of France.

APPENDIX 1

Legal Forms of the Ancient World

In ancient Assyria and ancient Greece there were certain varieties of association and partnership for the purposes of trade. Gaius, referring to a law of Solon (*Digest*, XLVII, 22, 4), lists the objects for which autonomous societies existed, and in this list trade is to be found, as well as the less reputable occupation of piracy. Aristotle also, in the *Nicomachean Ethics*, on several occasions speaks of associations for a common object such as utility or gain, and he distinguishes such combines from others with different aims. The legal history of the Roman republic and early empire presents reliable evidence that the Roman *societas* was in its original form the result of natural ties of blood rather than contractual ones. The cognatic family group, the *fraternum consortium*, inherited and administered property in common. Slaves who were manumitted owed the respect of *obsequium* to their former masters in the same sense that members of the *fraternum consortium* were bound by the tie of *obsequium* to a common ancestor. Neglect on the part of the emancipated slave (*libertus*) of this *obsequium* could be punished by the former master (*patronus*) taking a share in the freedman's possessions, which were then held in common by the *patronus* and *libertus*. This latter relationship, which was one of contractual partnership, bore the name *societas*.

The voluntary association of individuals, however, for the purpose of carrying on business really arose at Rome during the period of the Second Punic War (218–201 B.C.). The army contractors were united in such combines, and the farming of state revenues was auctioned off to similar groups. These new societies were known by a corporate name and enjoyed a juridical personality with corporate rights. The growth of these corporations and the formation of others of a similarly voluntary nature for the purposes of gain is most marked during the early empire. At that time all partnerships were the result of a contract which referred either to the whole of the present and future property of the partners, or were entered upon for some particular venture, or for farming taxes, or the joint management of one particular piece of property.[1]

The *peculium* was an instrument which furnished still another very convenient method of trading with distinct advantages for the Romans. In this instance, property was placed in the hands of a nonemancipated son or slave for the purposes of trade. The creditors of such a son or slave were entitled to sue the head of the family under the praetor's edict for the trade debts in-

[1] An excellent summary of the growth of the Roman *societas* is to be found in ed. H. Higgs, *Palgrave's Dictionary of Political Economy*, III, 65–67, *s.v. Partnership*. This is largely dependent on Leist, *Geschichte der römischen Societas*. Also see Manigk in Pauly-Wissowa, *Realencyclopädie der classischen Altertumswissenschaft*, zweite Reihe, III, cols. 772–78, *s.v. Societas*, where the legal texts are cited and discussed. On the Roman *collegia* which enjoyed a different history see J. P. Waltzing, *Etude historique sur les corporations professionelles chez les romains depuis les origines jusqu'à la chute de l'Empire d'Occident* (Louvain: Ch. Peeters, 1895–1900), 4 vols.

curred, but the judgment could never exceed the value of the *peculium*.[2] In reality this device was one which permitted the master to trade with limited liability through the agency of his son or slave. It was further extended so that several masters could become owners of a slave and thus carry on trade in a partnership through his agency. The slave who had both the *peculium* and the privilege of *libera administratio* might take part in virtually all varieties of industrial and commercial activity, and at the same time he would be subject to no control aside from the possibility that his master or masters might recall a part or all of his privileges. If any debts resulted from the business transactions carried on by the slave with the property assigned to him, each partner was individually liable for the entire debt, but, in turn, that partner might reclaim from his co-partners by an action on partnership or that for the division of common property what he had paid above his own share. (*Digest*, XV, 1, 27, 8.)

There were also, however, according to Palgrave, other methods of trading with limited liability under Roman law. There was the device of entrusting money to others for trade purposes which was called in mediaeval Latin *commendare* (from *cum-mandare, mandare* in turn was derived from *manui dare*). This form of partnership was, therefore, known in mediaeval law as the *commenda*. (Ed. H. Higgs, *Palgrave's Dictionary of Political Economy*, III, 67, citing L. Goldschmidt, *Universalgeschichte des Handelsrechts* [Stuttgart: Ferdinand Enke, 1891], I, 91. Cf. Ashley, *An Introduction to English Economic History and Theory*, II, 415. J. W. Thompson, *Economic and Social History of Europe in the Later Middle Ages* [New York: D. Appleton-Century Co., 1931], pp. 441–42, citing Ernest Nys, *Researches in the History of Economics* [London: Adam and Charles Black, 1899], trans. by N. F. and A. R. Dryhurst, p. 285, says that "Historically the *commenda* was of Arabic origin. It was existing in the time of Mohammed, and was the form of partnership in vogue among the rich merchants of Mecca. From Arabia the institution spread over the whole Mediterranean world with the conquest of Islam. As later among the western nations, so among the Arabs the *commenda* owed its organization to the endeavor to evade the provisions of Mohammedan law against loans at interest. It was through this type of organization that the work of the Italian financiers was carried on.")

[2] Higgs, *Palgrave's Dictionary of Political Economy*, III, 67. Also see *Digest*, LV, 6, 8 and 10; IV, 7, 3–8. *Digest*, XV, Titles 1 and 2 are completely devoted to the action *De Peculio*. Also see W. L. Westerman, *The Slave Systems of Greek and Roman Antiquity* (Philadelphia: The American Philosophical Society, 1955), pp. 16 and 83; L. A. Pernice, *Marcus Antistius Labeo* (2nd ed.; Halle, 1895–1900), I, 121; W. W. Buckland, *The Roman Law of Slavery; The Condition of the Slave in Private Law from Augustus to Justinian* (Cambridge: Cambridge University Press, 1908), pp. 187–233.

BOOK REVIEWS

DeLesseps of Suez: The Man and His Times. By Charles Beatty. New York, Harper & Brothers, 1956. Pp. 334. $4.50.

Recent Middle Eastern events will insure wide interest in a new book about the creator and the creation of the Suez Canal. This book is mainly an account of the life of one of the greatest entrepreneurs of the nineteenth century. The subject matter is so fascinating that even a mediocre attempt at biography offers rewarding reading. It is my impression that this is the case with Beatty's work.

There are basically three parts to this book: DeLesseps' life prior to his Suez adventure (amounting to almost half a century) which takes up a little more than the first quarter of the book; the promotion, the building, and the celebrations following the opening of the canal, which take up more than the next half; and finally, a hasty summary of DeLesseps' post-Suez life, consisting mainly of the Panama misadventure and his death in disgrace.

Beatty sticks close to chronology. The book opens with a description of the family into which Ferdinand was born. It was a family of diplomats with a long record of public service. His father, Count Mathieu, was at one point the French consul-general at Alexandria during the height of French-British intrigue and made valuable friendships, especially with Mehemet Ali, who a short time thereafter seized power in Egypt. Ferdinand DeLesseps' early years, however, were spent in Italy where his father occupied a diplomatic post. After Napoleon's fall, the DeLesseps hit upon hard times and it was only with difficulties that the father could again obtain a minor post in the diplomatic service. The author continues with a description of Ferdinand's rather uneventful education in France and his early training in the diplomatic service in Lisbon, where he led the life of a social butterfly. It was not until 1832, when he was in quarantine off the Egyptian coast to which he had come in order to serve as Vice-Consul at Alexandria, that he got acquainted with the subject that was to occupy two decades of his lifetime — he read Lepère's report on the possibility of constructing a canal through the Isthmus of Suez. Beatty describes DeLesseps' first sojourn in Egypt, where he made many acquaintances in both the foreign colony and Egyptian circles. He also got intimately acquainted with Mehemet Ali's son, Prince Said. This friendship was to be the key of DeLesseps' future activities. After that we follow the hero back to France, where he marries. Then follows a pretty normal career in the diplomatic service which takes the growing DeLesseps family to Holland, Malaga, Spain, and finally to Rome (1849), where Ferdinand was a special envoy in the hopeless task of saving Rome from a French invasion by reaching a compromise. The failure to accomplish the latter (this had actually been foreseen by authorities who used DeLesseps as a stooge) caused him to resign from the foreign service and retire to his estate. The author makes it clear, however, that DeLesseps' diplomatic career was not a completely routine affair. His streak for heroic actions had shown itself in his services to the Egyptian government during the cholera epidemic in 1835, in his conduct during the Spanish civil war while consul in Barcelona, and in his risky misadventure in Rome.

During his retirement he occupied himself mostly with the management of his family's estate and with studies about the feasibility of a canal through the Suez Isthmus. At that time he also underwent a personal crisis with the death of his beloved wife and a son. A little over a year later Abbas Pasha, the Viceroy of Egypt, who had been opposed to a canal project, died and was succeeded by DeLesseps' friend, Said Pasha. DeLesseps was soon invited by his old friend and during his extended visit he persuaded Said of the feasibility of his project. He received his concession, and from Chapter 6 to 15 the author recounts his hero's struggle to make the project politically, financially, and technically possible. The reader is taken on DeLesseps' journey through the desert to map out the proposed route; to Constantinople, to be overwhelmed by British intrigue which resulted in the Porte's refusal to give his consent (the latter had a certain degree of power over the Egyptian Viceroy); to France to organize the project; to England to try to win over a lukewarm public and a hostile Prime Minister; to influential financiers with whom the naïve Ferdinand could come to no agreement; all over Europe on promotional lecture tours; back to France to found officially the Compagnie Universelle, and to the sale of shares, which was a popular success in France, but a failure abroad. And then the reader witnesses the actual digging, which was complicated by unanticipated obstacles, such as continued foreign intrigue to stop the works, the disagreement over forced corvée labor; complications due to the death of Said, lack of capital, etc. . . . Finally, after having described the fifteen years of promotion and actual work on the project, Beatty gives a detailed account of DeLesseps' greatest triumph, the opening of the canal. We are given an almost minute description of his cousin's (Princess Eugénie), social behavior at the occasion, the trip of the first ships through the canal, etc. . . .

After reflecting on the hero's world triumph, the author sketches the rest of Ferdinand's life in two chapters. They cover mainly the latter's involvement with the Panama scheme, the actual undertaking of it, the degeneration of the enterprise resulting in major scandals for which the DeLesseps family was held responsible. The whole thing ends on a sour note — Ferdinand's death in disgrace.

There are three aspects of this book which we may wish to evaluate: its qualities as a biographical study, its merits as an historical analysis, and, from the point of view of the business historian, its adequacy as a study of an extinct sort of businessman — the nineteenth-century entrepreneur. The book does not meet the requirements of a good biography. A man as complex as DeLesseps deserves a character analysis written with more insight than Beatty has offered. For example, because his hero was not an exceptional student, but rather an athletic type, we are told that ". . . he had nothing of the moody introspection of the proverbial genius, tormented by interior conflict into the projection of some great work. . ." (p. 21). Or, a little further on, when the young DeLesseps reaches Egypt for the first time and reads Lepère's report on the proposed waterway, Beatty claims that the latter's report ". . . fired Ferdinand's imagination, burning deep. He saw the canal not in terms of politics or commerce, still less as personal gain. His was a spiritual concept, a dedication, an immortality. Remembering his father and looking at those around him, he had need of such a concept, in the same way that through the kindling

of faith the soul may become aware of 'salvation' as experience rather than mere belief." (P. 35.) This was in 1832; yet it was not till some twenty years later, when he had nothing else to do that he again became interested in the project. How deep did the idea really burn at the time?

At one point we do get some insight into the character of an entrepreneur (e.g., p. 95), when the author writes on his hero's lack of specialization and his promotional activities based more on hunches than on a knowledge of facts. But I think that the whole character analysis would have improved if the author had relied also on what Ferdinand's contemporaries thought of him. The analysis of DeLesseps' Panama failure leaves also much to be desired. The following important question is not answered: Could it be that some of the entrepreneur's character traits can only flourish in certain types of environments, while they dramatically fail in others? The author would certainly have added a great deal of interesting material if he would have spent a chapter evaluating the two episodes.

As a contribution to historical analysis the book leaves also much to be desired. There is overmuch reliance on secondary sources. The author *does* quote a lot from DeLesseps' personal papers. The more famous passages which are reproduced, such as the DeLesseps' travels through the Egyptian desert, or his interview with Palmerston, have often been used in the DeLesseps' literature. Outside of the hero's personal papers, there is too much reliance on secondary sources, especially recent biographies. Most used is the one by George Edgard-Bonnet [1] which was published in 1951, but was never translated. This book is used, and quoted from, so often that this reader on occasion wondered whether it might not have been better for the author to translate the work for Harper.

One also finds a lack of proportions. We occasionally get very long descriptions of unimportant social events, of the size and shapes of tents used during a desert outing, while more relevant material is often given only passing attention.

From the point of view of the business historian this book, or for that matter, any book on DeLesseps and the Suez Canal, should be of interest since he can get an idea of the background and personality of the nineteenth-century entrepreneur. Those were the days in which an enterprise could succeed against all odds by virtue of the "chief's" personality and faith, the latter being often based on unwarranted optimism. We also get an idea of the milieu which made such individuals thrive.

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[1] George Edgard-Bonnet, *Ferdinand De Lesseps: Le Diplomate, Le Créateur de Suez* (Paris, Librairie Plon, 1951). This biography takes the reader up to the Suez triumph. A subsequent volume on the Panama Affair is expected.

(NOTE: Attention Mr. Beatty and Harper: p. 252. Verdi wrote the opera *AIDA* for the Suez opening, not *RIGOLETTO*.)

Dream and Thought in the Business Community, 1860–1900. By Edward Chase Kirkland. Ithaca, Cornell University Press, 1956. Pp. ix + 175. $3.00.

Since America is so often described as (or accused of being) a "business society," it would seem appropriate to appraise the utterances of businessmen on social and economic questions. Indeed, over the years the reading public has been provided with numerous such historical investigations. But only too frequently these "studies" have turned out to be merely dreary compilations of passages or summaries of passages from contemporary writings, most of which are unworthy of whatever immortality is afforded by inclusion in historical books. It is a real pleasure to report that Professor Kirkland's brief and pungent work is a graceful exception to this rule. In part, this is because the author's own perceptive personality comes through to the reader more strongly than is possible in volumes which largely consist of excerpts from letters or magazine articles which are neither profound nor particularly interesting. But, in addition, it is because Professor Kirkland has not succumbed to the fallacy that there *was* a comprehensive, sophisticated system of thought attaching to businessmen which produced a philosophical outlook analagous to that of Veblen or Marx, Spencer or George. As Professor Kirkland says in his preface: "I regard the rich and successful as part of the human race, and an influential part; hence, I wanted to ascertain . . . what they thought or thought they thought." It is not entirely impossible to prove that economists and sociologists are also a part of the human race, but they are rarely businessmen. More significantly, businessmen, for good or evil, are rarely sociologists or economists. It should therefore not be a matter for disappointment that they did not have a highly articulated, well-constructed view of life derived from studious perceptions of society and its workings. Instead, in so far as businessmen give forth with generalized opinions it is most often in the form of a response to a particular problem or a specific criticism, no doubt clothed in the mantle of Natural Law and therefore with an appearance of universality, but nevertheless *ad hoc*.

Dream and Thought in the Business Community is divided into six chapters. Chapter I concerns itself with the over-all scene, with the "Panic and Pain," the economic disturbances and uncertainty which are seen as motivating the expression of business views on the broad issues of the need for security and stability. It is in this search for comprehension that business spokesmen introduced God, the divine law, or that *deus ex machina* of embattled propagandists, natural law. True, there was some verbal and presumably sincere acknowledgement of the contemporary advances in and methodology of the natural sciences. But we can well believe, with Professor Kirkland, that Darwinism "may have done no more for the business community than to furnish a new terminology for old ideas." (P. 14.) Emphasis, as always, was placed on the metaphysics of the "law of supply and demand"—at least where the price of labor was concerned. And the defense of profits and property, resting on the need for incentives and incorporating the normal moral justifications, led to a familiar if un-Biblical expression of irrevocable laws:

> The great law which nature seems to have prescribed for the government of the world and the only law of human society which we are able to extract from

history, is that the more intelligent and thoughtful of the race shall inherit the earth and have the best time, and that all others shall find life on the whole dull and unprofitable. (Pp. 20–21.)

Professor Kirkland holds that the roots of business thought, like the roots of industrial combination, lay more in the desire to understand and stabilize than in a need to erect defensive barriers.

Chapter II is concerned with the sociology of conspicuous domestic consumption and the "Big House." While interesting, the contemporary views which emerge are rarely new to the reader or particularly deep discussions of the question. Chapters III and IV deal with business attitudes towards education, from which Professor Kirkland is led to a useful and stimulating investigation of the broader issues involved in nineteenth-century educational evolution.

Chapter V analyzes the thoughts of businessmen on the thorny subject of government activity. According to the author, businessmen "suspected" rather than hated or dreaded government — and this because, in their view, it introduced uncertainty into economic activity and was likely to involve undue expense. Once again natural law was invoked, government interference with which would certainly be futile and possibly harmful. However, on this matter, as on others, there is a certain danger in Professor Kirkland's approach, which assumes a minimal amount of rationalization in business thought. For it is necessary to probe somewhat deeper into potential incongruities, into the seemingly wholesale condemnation of government interference on the one hand and, on the other, the fact that for many spokesmen, the baneful effects of official action stopped short of (for instance) tariff legislation. One also wonders if the corruption exercized on behalf of business (as it was exercized on behalf of other interests) has not been charitably underestimated by Professor Kirkland. However, he does abundantly indicate the prevailing strong dislike for politicians, which was likely to lead, all too easily, to a dangerous suspicion of the democratic process. In this, as in other things, we recognize the haughty air of olympian independence, the remoteness from and aversion to public opinion, and the unquestioned assumption of the ethical rightness of business secrecy which were among the more conspicuous sins of the nineteenth-century business outlook.

The last chapter ("Don't Shoot the Millionaire") concerns the justification of the existence of wealthy business — principally concentrating on the philanthropy which resulted from riches.

As pointed out before, *Dream and Thought in the Business Community* successfully avoids the pitfalls which inevitably accompany any attempt to classify the generalized, "philosophical" outlook of business. For the truth is that businessmen have rarely, since Franklin, formulated a metaphysic — they have more often merely adopted one by conceptualizing their particular feelings with terms such as "the law of supply and demand," or "the survival of the fittest." Perhaps in this sense Professor Kirkland was too sanguine in ruling out rationalization as an element in business thought. It was, for instance, this willingness to generalize which provoked contradictions, when, in fact, what businessmen were really talking about was a host of specific issues. The proposition that "under the fixed laws of trade, of supply and demand, the employer has really little more control over prices . . . than over the winds and the

weather," was one which few businessmen in their right senses could really have viewed as a Universal Truth.

It would, indeed, be unfair to take the spoken or written word at its face value. For instance, businessmen discoursed at length on the value of material incentives and the efficacy of pecuniary disincentives for producing business efficiency and success. Yet in so doing they were clearly envisaging a world somewhat different from that within which they saw their own motivations in terms of psychic satisfactions and altruistic ambition. For the historian the important things are what they did and why they did it, and only within this context can we appreciate what they thought and why they thought it.

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Baking in America. Vol. I, *Economic Development*. By William G. Panschar. Pp. xvi + 251; Vol. II, *Market Organization and Competition*. By Charles C. Slater. Pp. xviii + 458. Evanston, Northwestern University Press, 1956. $15.00.

Unlike A. H. Cole's *American Wool Manufacture* (1926), M. T. Copeland's *Cotton Manufacturing Industry* (1912) and other classic industry histories, the baking industry study is a teamwork product with a strong accent on economics. Volume I, much the smaller of the two, stresses economic growth and development. Volume II is devoted to an analysis of current market organization and competitive behavior. Its author was at one time a consultant to the Bakery Section of OPS, and also a reporter for *Baking Industry*, a trade journal. William G. Panschar holds a post in Business Administration at Berkeley. Both authors acknowledge the tutelage and assistance of Professors Richard B. Heflebower and Harold F. Williamson of Northwestern University's Economics Department. The work was guided in part by an advisory committee at the University and a committee of the American Bakers' Association which financed the project by a grant to Northwestern. Many other individuals assisted in the research, compiling of statistics, writing, and editing.

The volumes comprise virtually a textbook in applied economics in which historical and current experience provide the laboratory data for observing market structure, competitive behavior, and the ramified forces underlying economic change, as well as a means of testing economic theory. Each subject is prefaced by illuminating didactic expositions of economic doctrine, of methods of analysis employed, and anticipated conclusions. The approach is neither that of exact science nor of mere detached intellectual appreciation, but is one of coming to grips with actual problems and conditions. The authors only occasionally betray the economists' sometimes esoteric fascination with statistical refinement, and it is no fault of technique that the generalizations supported by statistical evidence often seem commonplace. If the findings that bread is usually purchased in a grocery store, that the average family buys bread 2.15 times a week, and families with children spend a larger percentage of their income on food appear somewhat obvious, it is undoubtedly because bread is the staff of life and the role of bakers in our economy more familiar than, say, that of carpet makers or brass manufacturers.

In general their knowledge of economic criteria enables the authors to ask vital, fundamental questions and within a broad frame of reference appraise the industry's organization and performance. Where the available statistics or tools are inadequate for objective measurement, valid conclusions and value judgments are reached through a process of inductive reasoning based on a thorough familiarity with the operating details of the baking industry and by insights which the authors modestly call opinion. On the question of monopoly, which is probed at length, a quantitative, relative, and above all realistic evaluation points to the conclusion that the situation is one which approximates perfect competition and is surely not monopoly, although the number of rivals in any given market may be few. If bakeshops charge too much for cake or other sweet goods, housewives will tend to bake their own, for the baking industry is only a step removed from the kitchen. The consumption of bakery bread on the other hand is less responsive to price changes, but here the influence of chain stores that offer their own brands at low prices to attract customers is the decisive factor. The ease of entry into most segments of the baking industry also places a damper on price. Large, highly mechanized establishments and small bakeshops typically coexist and prosper in the same market. Competition, moreover, is not restricted to price but emerges in numerous less tangible forms. Nor does the behavior of either sellers or buyers always conform to that which might be expected of the rational economic man, although the probable reaction of competitors, distributors, and consumers is given much weight in decision-making.

The baking industry tends toward stability and maturity, and changes, technological or otherwise, are evolutionary rather than revolutionary. Commercial bakeries have existed since the days of the ancient Egyptians, who discovered leavened bread. State regulation reached fantastic heights under the Romans, inventors of the peel oven, which remained the baker's basic equipment for the next 2,500 years. Vestiges of the celebrated English Assize of Bread (1266 A.D.) and the medieval bakers' guilds were in evidence in colonial America. Until recent times the home-baked loaf, like homespun cloth, predominated. Urbanization and rising incomes increased the demand for bakery goods, in turn giving an impetus to large-scale production, which, coupled with rapid transit, seriously disturbed the accustomed marketing pattern after 1900. Rival bakeries stocked the grocer's shelves with bread, and to persuade him to handle this bulky, highly perishable item as well as to assure consumers of fresh bread daily, undertook the responsibility of removing stale loaves. The burden of "stale returns" has continued to plague wholesale bakers ever since, even as they appear wedded, for better or for worse, to the truck-driver-salesman and his route.

The authors may be congratulated on their success in presenting the results of advanced analytical techniques applied to a wide range of concrete problems and situations in an extremely lucid and readable form. Their presentation, except for a tendency toward duplication, possibly because of the multiple authorship, and repetition in the interest of clarity, is well organized. Charts, graphs, and tables are related to and support the text, but never unduly delay the reader. A paucity of data and academic monographs prevented the fullest use of the historical third dimension. Conclusions based on statistical series less than five years in length tend to be somewhat facile.

Similarly, the study would have benefited from prior histories of individual baking firms. Since the bricks (company histories) were lacking, the edifice (industry history) had to be constructed from the scraps of primary and secondary material at hand and entailed no inconsiderable spadework on the part of the authors. The study, particularly the first volume, relies heavily on trade journals, house organs, interviews, company brochures, and government reports as sources of information. More enlivening anecdotes and incidents illustrating the representative or the typical might have been included. Perusal of business correspondence would undoubtedly yield further significant insights and the distillations derived from patient research in musty business records might well modify or strengthen the generalizations made. Despite much analysis of the response of the industry to its "basic conditions" and organizational milieu, the identity of individual entrepreneurs or firms is lost in the tug-of-war of amorphous, impersonal forces which "condition" business strategy.

On the whole the volumes are an objective, well-balanced appraisal of the functioning of a major segment of our economy — the perishable products branch of the baking industry. The cracker-biscuit branch, which is given only casual mention, is utterly different in its historical development and character. The present study leads to an understanding of the impulses underlying industrial growth and economic change, and the intricate, often baffling, interplay of forces in the market place. As such it should assist leaders in the industry to conduct their affairs more intelligently and the general reader to appreciate more fully the behavior of industrial firms viewed as the product of the totality of societal phenomena. For the historian, the government official, or anyone concerned with weighing the performance of business firms in a free enterprise economy, this study is a revelation of the possibilities opened by the application of modern tools of socio-economic research in reaching a better understanding of the dynamic processes which shape the business community and the seemingly inherent safeguards which protect the general welfare.

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My Forty Years with Ford. By Charles E. Sorensen, with Samuel T. Williamson. New York, W. W. Norton and Co., 1956. Pp. 345. $5.95.

Mr. Sorensen has given us an extremely valuable book. He is in the unique position of being the one man who can tell the inside story of the Ford Motor Company during the lifetime of its founder, and if he was not the only man ever to be close to Henry Ford, he was certainly the only one to stay close to him for any period of time. He has told his story effectively, untrammeled by modesty or reticence, and in the process he has revealed much about the Ford Motor Company, much about Henry Ford, and much about Charles E. Sorensen.

For the earlier part of the Ford story Sorensen adds little to existing accounts. He claims to have been the first to envisage and experiment with the moving assembly line, and he takes exclusive credit for the five-dollar day. He may be right, although with the assembly line we will be more likely to

accept as a final judgment his own statement that mass production was something that they all grew into: "The essential tools and the final assembly line with its many integrated feeders resulted from an organization which was continually experimenting and improvising to get better production." (P. 128.)

The period which the author refers to as the "Sorensen period" (1925–1944) is the one most likely to attract attention. Here is the familiar account of Henry Ford's stubborn retention of the Model T, with some new information on the struggle by other company officials to get him to change his mind. The description of the development of the Model A is new historical material.

The Sorensen period also covers the tangled story of the 1930's. However, those who look for a blow-by-blow account of a Sorensen-Bennett feud or for fresh information on Ford's labor relations at this time will be disappointed. Sorensen dismisses Bennett as Henry Ford's "yes-man," who did exactly what he was told — a role in which others have sometimes cast Mr. Sorensen. He makes it clear that he had little to do with either the struggle between Ford and the U.A.W. or its settlement. As compensation there is a lucid and, to a considerable extent, a previously untold account of Henry Ford's physical and mental deterioration in his later years and the near-catastrophe that this condition brought to the Ford Motor Company. Included in the story is the deep tragedy of the relationship between Henry Ford and Edsel — of how the man who had an intuitive grasp of machinery understood human beings so little that he hounded and harassed his only son into a premature grave. Sorensen's role in this drama, as he saw it, was to hold the company together until the founder's grandson could take charge.

This phase of the story necessarily carries through the construction of Willow Run, and here Sorensen goes into considerable detail to defend himself quite convincingly against the criticisms that were made of the Willow Run achievement. He also has a coherent description of the Ferguson tractor affair.

The personalities who appeared in the Ford Motor Company were a colorful lot, and Sorensen passes judgment on all of them. He pays tribute to Couzens and Flanders and less enthusiastically to Wills. Indeed, his matter-of-fact account of how he treated Wills when the latter tried to return to Ford after the failure of his Wills Sainte Claire venture is a horrifying insight into the atmosphere of jealousy and hostility that pervaded Ford officialdom in those days. Sorensen obviously had no use for Dean Marquis or John R. Lee, and he gives Knudsen only a casual reference. However, readers who have been brought up on the more sensational legends of the Ford Motor Company will be interested in Mr. Sorensen's standing offer of $1,000 for proof that he ever smashed anyone's desk or ordered it done.

As far as Henry Ford's extra-curricular activities are concerned — the peace ship, the *Dearborn Independent*, and so forth — the author has little to say, and quite properly so. His relationship to Ford was inside and not outside the company. There is one regrettable omission, however; Sorensen does not even mention Ford's acquisition of the Lincoln Motor Car Company, although as Ford's trouble-shooter he was the man who took charge of the Lincoln plant when Henry M. Leland left.

Mr. Sorensen is to be congratulated for his honesty in presenting himself as he was and not as in retrospect he might have liked to be. He was always

"Cast-iron Charlie," never "Good Old Charlie." His characterization of Henry Ford and his statement of his own relationship with Ford on page 34 might more effectively have been made the conclusion of the book, since they deserve more emphasis than they get in their present location. Readers may question whether Henry Ford's defects can be considered "microscopic" in relation to his good qualities, but this is a question unlikely ever to be resolved. For the author himself, it might be pointed out that the label he proudly wears as "Henry Ford's man" is inaccurate by his own testimony. His first loyalty was to the Ford Motor Company, even if he himself was never clearly aware of the distinction.

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Aetna Life Insurance Company: Its First Hundred Years. By Richard Hooker. Hartford, Connecticut, The Company, 1956. Pp. 259.

While it is possible for business firms to travel a continually smooth and quite unobstructed road to success, in the vast majority of cases there are major obstacles to be overcome before these concerns can be assured of survival and growth. Frequently these hurdles have proven fatal to enterprises, especially newer and smaller ones without adequate resources to withstand financial setbacks. The wintry blasts of depression, excessive competition, mismanagement, and/or inadequate leadership have shattered many a business venture which was started with high hopes and great expectations on the part of its founders. Those firms fortunate enough to survive their trials and tribulations have been prominent among the companies which have helped to make the American economy the tower of strength that it is. In short, many successful business enterprises have come to appreciate the uses of adversity.

One of the virtues of this history of the Aetna Life Insurance Company of Hartford, Connecticut, is its refusal to gloss over the serious roadblocks encountered by the company in its efforts to grow and expand. Founded in 1853, the Aetna Life went through one long battle for survival. One of the most severe threats to its continued existence was successive depressions, which took an enormous toll among early American life insurance companies. Thus, for example, six of these companies closed their doors in 1868, nine failed in 1869, and eight dissolved in 1870. By 1878, seventy-nine more had been toppled by financial reverses, while others were so weakened in this period that their final collapse was a question of time. In an era when mutual life insurance companies were gaining the ascendancy, the Aetna Life, a joint stock company, was able to survive successive depressions and establish a reputation as one of the largest and soundest in the industry. Excellent management of reserves was one of the key factors accounting for its success. It refused doubtful risks, took care to make sound investments yielding adequate rates of interest, and exercised stringent economy to reduce expenses.

The company's courageous decision to abandon its premium note or "half-note" system in 1868 is typical of its conservatism and sound financial management. The "half-note" plan permitted the purchase of insurance upon the payment of part of the premium in cash (usually 50 per cent). Premium notes were then issued for the remainder of the premium, and they bore 6 per

cent interest. As in the case of the mutual life insurance companies, the Aetna Life paid dividends at the rate of 50 per cent on all participating policies to accelerate the retirement of premium notes. At first the premium note was looked upon as an excellent device for building up a new company against existing competition. The company, however, recognized that the premium note system entailed serious disadvantages. While there was nothing inherently wrong in premium notes per se, the company realized that they were paper and not cash assets. The "half-note" system necessitated burdensome bookkeeping. The author notes another important consideration for its decision to abandon this system: "As interest rates on Company investments experienced the common decline of the time, while the abnormal conditions of the Civil War period were undergoing readjustment, the maintenance of 50 per cent dividends was becoming impossible." (P. 77.) The immediate consequence of this move was a temporary drop in the number of policies held with the company, but in the long run Aetna Life profited from this step.

Of particular interest is the expansion of the company into other fields of insurance. In 1891 it began to underwrite accident insurance, in 1899 health insurance, in 1902 liability insurance, and in 1913 group insurance. Through the Aetna Life Affiliated Companies, additional types of insurance included fire, automobile, surety and casualty. Especially to be noted is its role as a pioneer in issuing group insurance. While another company first introduced group insurance in the United States in 1912, Aetna Life began to experiment with it in 1913 and rapidly became a leader in this type of coverage. More recently, it has studied ways and means of meeting the insurance needs of the employees in atomic energy plants, government-controlled or under private auspices. The Aetna Casualty and Surety Company, one of the Aetna Life Affiliated Companies, has assumed the compensation and liability coverage of the employees at Oak Ridge.

Interesting is the author's discussion of the impact of both world wars and the depression beginning in October, 1929, on the company's operations. These momentous events shaped Aetna Life's course of development in significant ways.

Omissions in the history, however, are many. The author fails to relate, in numerous instances, developments within the company to those occurring in other life insurance concerns and to American political, social, and economic trends. The volume is usually silent on the decision-making process within the company. There is rarely any mention of the administrative setup and of successive changes, if any, in the internal organizational fabric to meet the needs of expansion. There is little discussion of such top management functions as the formulation and continuous reappraisal of major plans and policies, the exercise of control to ensure the achievement of these objectives, and the coordination of effort among the various departments of the company. Nor is there any mention of the procedures whereby these management functions were implemented in the day-to-day operations of the company. The reader gets very little notion of the administrative process, which is of major importance in the successful operations of a company, especially when it grows in size and complexity.

Competition among life insurance organizations has always been a crucial factor in the business. Co-operation, however, is also important in the indus-

try and is necessitated by practical business considerations. The American Life Convention and the Life Insurance Association of America are two outstanding examples of this co-operation exercised through effective trade associations. It would have been interesting to learn how Aetna Life co-operated with other companies in various important sectors of the business. The volume unfortunately contains but little material on this subject.

The author often lacks the ability to separate important from irrelevant details. Thus, there is a mass of extraneous material which might well have been excised. The failure to annotate the material and to provide a bibliography is disappointing to those interested in doing further research in this field.

In spite of the shortcomings of the work, this history of Aetna, written in a popular vein, can be of much value to the business historian. Through its description of the vicissitudes of one of the giants of the industry, one is enabled to gain a larger perspective on American life insurance. After reading this volume, one realizes anew how closely intertwined this industry is with other major American industries and how inseparably interwoven it is with the American economy as a whole.

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The Story of the Life Underwriters Association of Canada: 1906–1956. By Leslie W. Dunstall. Toronto, Canada, 1956. Pp. 94.

Sixteen years after American life underwriters organized the National Association of Life Underwriters in 1890, their Canadian brethren were successful in forming the Life Underwriters Association of Canada. The major reasons for forming both associations were quite similar. The prevalence of insurance evils, including rebating, twisting, and misrepresentation, exacerbated as it was by the cutthroat competition among both companies and agents, was a powerful factor pointing up the urgent need for co-operation to combat these festering insurance abuses. The ethical, full-time life insurance agent was harassed and injured by the hit-and-run tactics of a myriad of part-time agents, many of whom conceived of life insurance not as a profession worthy of respect but merely as a commercial pursuit yielding the proverbial "fast buck."

One must not forget, however, the lobbying role of these associations, which was another major reason for their formation and growth. Interesting to note in this connection is the fact that the founding of the Canadian association followed shortly after the revelations of insurance evils in the celebrated Armstrong investigation of 1905 in New York City. The more thoughtful of the Canadian life underwriters realized that only as an organized group could they effectively present their point of view to the Royal Commission set up by the Government of Canada to study the Canadian situation in the light of the disclosures in the inquiry held in New York City. One notes the role of the LUAC in advising the Commission, whose investigation culminated in the important Life Insurance Act of 1910. This significant piece of legislation forbade such malpractices as rebating, misrepresentation, and the estimation of dividends.

On the occasion of the fiftieth anniversary of the founding of the LUAC, its executive vice president, Leslie W. Dunstall, wrote a short, compact history of the group. While designed primarily for popular reading, this volume is of value to the business historian. Like its sister organization in the United States, the LUAC had to survive obstacles not minor in nature. The early years were marked by struggle and slow, painful growth as the body fought to eradicate deep-rooted insurance malpractices that often posed the threat of demoralizing the life insurance industry. As in the case of the NALU and indeed of most trade associations formed for similar reasons, the burden of the work of the Canadian group devolved upon a relatively few stalwarts who were imbued with missionary zeal for the objectives of the organization. During its first decade, there was no permanent staff and no office quarters. All work was on a purely voluntary basis.

The appearance of *The Life Underwriter News* in October, 1914, as its official organ, and the establishment of an office and the appointment of a permanent staff in 1915 marked a further stage of growth for the group. The growing pains experienced by the LUAC up to 1929 was not an entirely unpleasant experience, as the period was characterized by continuous growth and considerable achievement on the part of the trade association. There were changes in its organizational structure which were necessitated by this heartening growth. In the early period, the LUAC plumped enthusiastically for institutional advertising as it realized the value of co-operation with life insurance companies in striving for common goals.

The depression era beginning with October, 1929, proved, however, to be a difficult one for both the LUAC as an organization and the individual life insurance agent in his day-to-day work. While company income fell sharply and competition among both companies and agents was intensified, insurance malpractices began to flourish once more. In addition to those previously mentioned, another insurance abuse in the shape of trafficking in industrial policies assumed alarming proportions. The LUAC and other groups were successful in their campaign for legislation which would prohibit such harmful trafficking. Illuminating for the light it sheds on the subjects which engrossed the interest of the membership are the following problems listed for discussion by the governing body of the organization at its annual meeting held in January, 1934 (pp. 42–43):

(a) Assessment Club activities in Saskatchewan.

(b) Interference by bankers with life insurance policies.

(c) Unfair annuity competition by the Dominican Government.

(d) Civic Relief Agencies and their attitude towards life insurance policy values.

(e) When should competition cease.

(f) Unethical practices.

(g) Re-writing and re-dating of policies.

(h) Twisting and rebating.

(i) Selection and licensing of agents.

(j) Co-operation of insurance departments with regard to membership in the LUAC.

There is little doubt that some of these problems are still to be encountered on both the Canadian and the American scene.

The impact of the Second World War upon the group and developments during this period are given careful attention. The war years witnessed a tremendous surge forward of life insurance sales, an experience parallel to that occurring during the First World War. These increased sales were produced by a contracting agency force. This points up the fact, in the words of the author, "that a smaller, more compact, better trained field force could produce a substantially greater value of business." (P. 57.) The more ethical, competent underwriter, proud of his profession and eager to serve the public, was equally proud of his association, with its marked growth in stature and maturity. The LUAC's role in the Chartered Life Underwriter (CLU) movement in Canada was a major one. Like the CPA designation in the field of accounting, CLU marked its possessor as a well-trained, versatile, highly competent, ethical member of a worthy and respected profession. The LUAC, like the individual life insurance agent, had come a long way.

While recognizing that the volume is designed primarily for popular reading, from the point of view of the business historian it contains not a few gaps. Some of the major ones relate to the lobbying activities of the organization, the impact of World War I on the group, and the methods employed by it and its constituent local associations to combat insurance evils other than through legislation. The failure to annotate the material covered in the work and to include a bibliography are disappointing to the historian interested in the field.

In spite of these hiatuses, the volume is of value to the business historian. It is a well-written account, within small compass, of the evolution of a trade association which has accomplished much good in the cause of ethical life insurance selling. That the Life Underwriters Association of Canada and the older National Association of Life Underwriters in the United States have had remarkably similar histories might lead one to conclude that common influences in both countries were operating to produce like developments with respect to life insurance.

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